TAG Oil

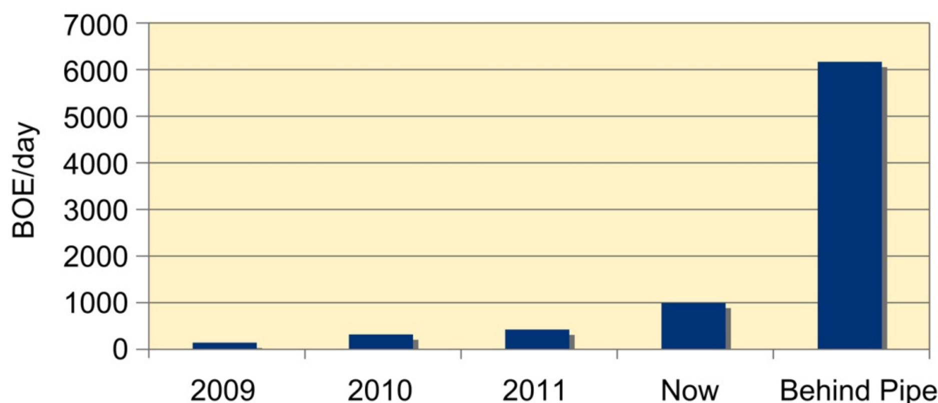
July 29, 2011

Dear Shareholders,

I am very pleased to say that TAG Oil will start the 2012 fiscal year in a position of significant financial strength, with strong working capital, debt-free status and rapidly growing production and reserves. Along with a relatively undiluted capital structure, TAG is at the forefront of its peer group, with a solid foundation to expand its business in the years ahead. During the 2011 fiscal year, TAG has achieved many significant corporate milestones, with our operations delivering better-than-anticipated results with new discoveries in Taranaki. While our operations and new oil and gas discoveries in the Taranaki Basin are driving near-term cash flow to our highest-ever levels achieved, our greatest pursuit still lies ahead, as we diligently move closer to testing the major resource potential estimated in our East Coast Basin shale prospects.

Production and Development — Taranki Basin, New Zealand

The beginning of the 2011 fiscal year saw TAG's production rate averaging 372 barrels of oil equivalent (BOE) per day. We now produce approximately 950 BOE per day, with an anticipated production ramp-up past 5,000 BOE per day from our current "behind-pipe" production capability at our Cheal and Sidewinder oil and gas fields. These newly discovered oil and gas reserves are only awaiting Cheal's artificial lift system expansion and the Sidewinder Production Station commissioning, both on schedule to occur in coming months.



Our excellent drilling success in the Taranaki Basin has encouraged TAG to aggressively move forward with further drilling that will commence in September 2011. This next phase of drilling will continue to target the same Mt. Messenger and Urenui Formations where we achieved excellent flow rates with robust economic potential, as well as deeper, high-impact wildcat targets in new, exciting formations such as the Moki Formation. Our goal for this next phase of drilling, consisting of infill, development and step out wells, is to further build our near term producing reserves, and further exploit the numerous exploration and development opportunities that remain in our Taranaki acreage.

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The table below summarizes the results from the six successful new wells TAG recently drilled in the Taranaki Basin. The high productivity flow rates achieved from production testing demonstrate the high-impact potential, with robust economics in our Taranaki operations.

Well	Flow Rate Per Day	BOE Flow rate	Final Drawdown Rate	Net Pay Encountered
Sidewinder-1	7.40mmcf	1,233	28%	14 meters
Sidewinder-2	8.8mmcf	1,467	25%	47 meters
Sidewinder-3	7.21mmcf	1,202	40%	15 meters
Sidewinder-4	6.98mmcf	1,163	25%	19 meters
Cheal-B4ST	360 barrels	400	–	17 meters
Cheal-C1	Testing shortly	Testing shortly	–	15 meters
Total:		**5,465 BOE/day**		

Exploration East Coast Basin — New Zealand

As the first mover to identify the fractured shale potential in the East Coast Basin in 2006, TAG Oil acquired a large land base covering the most prospective acreage for shale exploration. The shale formations are high quality source rocks with the potential to contain a very valuable resource: Sharing many characteristics with the successful shale plays in North America, such as the Bakken, they provide a model for potential success in New Zealand.

As part of our scheduled commitments to the New Zealand government, we have voluntarily relinquished some acreage that we have determined to have minimal or no shale exploration potential. We have, however, retained a current high-graded land position of 1.7 million acres (2,656 sections) of what we consider to the most prospective acreage with the highest chance of achieving commercial success based on technical data we have acquired over the years.

In November 2008 TAG Oil retained AJM Petroleum Consultants to independently assess the resource potential of the Waipawa and Whangai shale formations within our permits. Given the limited data available at that time, just 200,000 acres of our current 1.7 million acres was assessed in this report. The report concludes a best estimate potential of 12.6 billion barrels of oil equivalent of undiscovered Hydrocarbon-In-Place.

Undiscovered Resource Potential on 200,000 acres (billion barrels of oil)

	Low Case	Best Case	High Case
Unconventional Exploration	4,022,263,000	12,654,778,000	39,835,707,000

Over the past 18 months, TAG Oil has compiled significant amounts of critical data through: seismic acquisition, analysis of core and oil samples, land mapping, and shallow drilling, all of which further supports the prospectivity of the shale play. We drilled three shallow stratigraphic wells to total depths of 250-300m which intercepted oil-and-gas bearing sands over 11 to 13 gross meters at approximately 200m depth, under anomalously high-pressures, all recovering 50-degree API sweet light crude oil. The oil was lab tested and its been positively confirmed that the source of the oil is from the underlying shale formations.

We are encouraged with these results and we will plan a test of this shallow play during the coming year, but our primary pursuit is the significant resource potential in the Whangai and Waipawa shale formations. In late 2011, TAG will begin the next phase of exploration with a goal to establish that commercial amounts of oil and gas can be produced directly from these high-quality fractured shale source rock formations.

TAG has started initial consultation by discussing our operational plans with landowners, and through informal meetings with teachers and students at local schools. Further consultation and information sharing will also be initiated with local Iwi, district councils and residents to ensure our activities are understood and conducted respectfully.

Going forward in New Zealand

Oil and gas has grown to be the third largest contributor to New Zealand's export economy and TAG has been the most active oil and gas company onshore in the Taranaki Basin over the past 12 months. As we see the benefits of these efforts, we also appreciate the opportunity New Zealand provides us to do business, as well as the tremendous support TAG Oil has received from the people of New Zealand, its government and a very competent service industry.

We operate in a country that is stable, fiscally attractive and provides access to nearby demand from Asian markets for all oil produced at Malaysian Tapis Crude prices, which are currently above US $120 per barrel.

We are proud of what TAG Oil has achieved, but by no means are we satisfied. We are approaching exciting programs as our projects continue to build momentum in both the Taranaki and East Coast Basins. We will continue to execute our strategic growth plan by continuing to build reserves and cash flow in our lower risk ventures in Taranaki, while working toward the big prize of commercializing the East Coast Basin in the coming months and years.

Best Regards,

TAG Oil Ltd.

Garth Johnson,
Chief Executive Officer

TAG Oil

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) is dated July 29, 2011, for the twelve month period ended March 31, 2011 and should be read in conjunction with the Company's accompanying audited consolidated financial statements for the same period and the audited consolidated financial statements and the MD&A for the year ended March 31, 2010 and 2009.

Forward Looking Statements

The MD&A and Letter to Shareholders 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 drilling programs and results, facility and pipeline construction operations, 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 the MD&A and Letter to Shareholders 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 July 29, 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 and Letter to Shareholders 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.

BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1bbl is based on an energy equivalency at the burner tip and does not represent a value equivalency at the wellhead.

Undiscovered Hydrocarbon-In-Place (equivalent to undiscovered resources) is that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. There is no certainty that any portion of the undiscovered resources will be discovered or that, if discovered, it will be economically viable or technically feasible to produce.

Exploration for hydrocarbons is a speculative venture necessarily involving substantial risk. TAG's future success in exploiting and increasing its current reserve base will depend on its ability to develop its current properties and on its ability to discover and acquire properties or prospects that are capable of commercial production. However, there is no assurance that TAG's future exploration and development efforts will result in the discovery or development of additional commercial accumulations of oil and natural gas. In addition, even if further hydrocarbons are discovered, the costs of extracting and delivering the hydrocarbons to market and variations in the market price may render uneconomic any discovered deposit. Geological conditions are variable and unpredictable. Even if production is commenced from a well, the quantity of hydrocarbons produced inevitably will

decline over time, and production may be adversely affected or may have to be terminated altogether if TAG encounters unforeseen geological conditions. TAG is subject to uncertainties related to the proximity of any reserves that it may discover to pipelines and processing facilities. It expects that its operational costs will increase proportionally to the remoteness of, and any restrictions on access to, the properties on which any such reserves may be found. Adverse climatic conditions at such properties may also hinder TAG's ability to carry on exploration or production activities continuously throughout any given year.

The significant positive factors that are relevant to the estimate contained in the independent resource assessment are:

- proven production in close proximity;
- proven commercial quality reservoirs in close proximity; and
- oil and gas shows while drilling wells nearby.

The significant negative factors that are relevant to the estimate contained in the independent resource assessment are:

- tectonically complex geology could compromise seal potential; and
- seismic attribute mapping in the permit areas can be indicative but not certain in identifying proven resource.

Business

TAG Oil Ltd. is a Canadian-based oil and gas producer and explorer with assets consisting of more than 1.7 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 nine wells producing or capable of producing at the Cheal oil and gas field ("Cheal") and four capable producing wells at the Sidewinder oil and gas field ("Sidewinder') once production facilities are commissioned in August or September 2012.

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 while the Company's 20% interest in the Kaheru prospect offshore in PEP 52181 offers a significant amount of resource potential to pursue in Taranaki during the next few years.

The Company also intends to achieve 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.

Petroleum Property Activities, Production and Capital Expenditures for the year ended March 31, 2011

During the year ended March 31, 2011, the Company incurred $21,819,493 worth of net expenditures on its oil and gas properties. This compares to $5,873,721 worth of expenditures during the 2010 fiscal year.

East Coast Basin

The Company controls a 100% working interest in 3 exploration permits totaling 1.73 million acres on the East Coast of the North Island of New Zealand. To date, the company has acquired proprietary 2-D data, completed extensive geological surface and sub-surface studies, and has drilled a number of shallow stratigraphic test holes within the three permits. The goal of the company's work to date is to determine if there is a viable shallow conventional oil play and to delineate and plan the first wells targeting the unconventional shale scheduled to begin in late 2011 and carry into 2012.

PEP 38348 (TAG 100%): $437,839 (2010: $67,644) of expenditures were incurred during the year in securing a land access agreement and drilling two additional shallow stratigraphic wells to approximately 250 meters. During drilling of shallow test holes in PEP 38348, potential conventional reservoirs were encountered at shallow depths (<250m) with net pay in each well of approximately 7 meters. These tests at Waitangi Hill will be studied further and a follow-up shallow oil testing program is likely to be initiated in 2012. On November 4, 2010, the Company relinquished 25% of less prospective land, accompanied with a commitment in writing to the next stage of the work program for PEP 38348 with the Ministry of Economic Development.

PEP 50940 (TAG 100%): $91,956 (2010: $26,260) 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 and at the date of this report has completed orientated coring operations on eight stratigraphic wells to evaluate the structure of the Tangamatai area of interest.

PEP 38349 (TAG 100%): $128,344 (2010: $96,076) of expenditures were incurred in the quarter related to field mapping and preparation for a shallow stratigraphic well located on the Kawakawa Anticline that, at the date of this report, has been completed.

Taranaki Basin:

Cheal Oil and Gas Field (TAG 100%)

During the 2011 fiscal year, TAG focused on identifying new prospects and drilling its onshore Taranaki permits while also optimizing the production from the producing Cheal wells. Optimization efforts were successful and resulted in an increase in the recovery factors being assigned to the Mt. Messenger Formation reserves as well as having reserves being assigned to the Urenui Formation for the year. TAG was successful in establishing the first-ever commercial production from the bypassed Urenui Formation oil discovery, using new technology and completion techniques in two historical wells drilled at Cheal by the previous operator and by drilling the successful Cheal B4-ST well during the year well that targeted Urenui and Mt. Messenger zones that are now tied into the Cheal production facilities. Having successfully completed these operations, Cheal now produces from both the Urenui and Mt. Messenger Formations at approximate depths of 1400m (~4600 feet) and 1800m (~5900 feet), respectively.

At the time of this report the Company had drilled, completed and was testing the Cheal-C1 well in PMP 38156.
The Cheal field produced an average of approximately 413 barrels of oil per day during the year ended March 31, 2011, and at the date of this report Cheal is producing approximately 800 barrels of oil per day and 900 mscf of gas per day after the completion and tie-in of the Cheal-B4-ST well. Due to a shortage of artificial lift capabilities at Cheal, the field is being choked back with only 4 of the 9 wells capable of production producing on any given day resulting in approximately 300 barrels of oil per day plus associated gas production remaining behind pipe. The wells are rotated to allow even depletion, but planned optimization work in coming months 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.

At Cheal the Company spent $11,293,958 (2010: $4,133,489) during the year including;

a. work over of the Cheal-B3 well
b. work-over of Cheal 1
c. work-over of Cheal A7
d. drilling of the Cheal-BH-1 horizontal well and the Cheal-BH-1 recompletion
e. well optimization activities in the Urenui and Mt. Messenger Formations
f. drilling of the Cheal B4-ST1 well

The Company also:

a. incurred $105,018 in costs (2010: $178,627) related to the Cheal production station facilities
b. acquired the former PMP 38156 Deep (Cardiff) concession on December 22, 2010 for cash and the assumption of certain abandonment and reclamation costs
c. applied for an Extension of Land to PMP 38156 in January 2010 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.

The Company's year-end independent reserves assessment on its 100% interest in the Cheal Oil Pool, onshore Taranaki Basin, New Zealand dated March 31, 2011 assigned a net present value of US$69.57 million (2010: US$29.43 million at 10% discount rate), using a 10% discount rate to proved and probable reserves. Net proved and probable reserves (2P reserves) estimates of the Cheal pool have increased from 651,000 net barrels of oil and 258 MMCF net solution gas or 694,000 BOE at March 31, 2010 to 1,360,000 net barrels of oil and 571 MMCF net solution gas or 1,677,000 BOE at March 31, 2011.

Sidewinder Oil and Gas Field (TAG 100%)

The Company drilled four Sidewinder wells and completed and tested all four wells on PEP 38748. Results indicate that the size and scope of the Sidewinder discovery area is much larger than originally anticipated and drilling has resulted in initial reserves being assigned to this permit. Furthermore, the Sidewinder permit remains lightly explored and is prospective for further oil and gas discoveries, with numerous drill-ready prospects already identified on extensive 3D seismic across the permit.

Progress is being made to commercialize the Sidewinder oil and gas discovery and fabrication of all necessary components is on time and on budget and the Company's 3-km pipeline link into New Zealand's main gas transmission grid is under construction using an 8" and 4" pipeline for production. The facility is being designed to accommodate oil and gas production from all Sidewinder wells with first production scheduled for September 2011. The Company incurred $9,301,259 (2010: $165,924) of expenditures in drilling the Sidewinder 1, 2, 3 and 4 wells, as well as completing and testing the Sidewinder-1 well. At the date of this report all Sidewinder wells have now been completed and tested.

During the year, the Company also recorded $333,240 in costs (2010: nil) related to the construction of the Sidewinder production station facilities.

Kaheru Offshore (TAG 20%)

On December 31, 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 in shallow water just 8 km from shore and in close proximity to existing infrastructure. PEP 52181 contains the large Kaheru Prospect and numerous other leads identified on, extensive 2-D and 3-D seismic coverage.

$127,879 (2010: nil) of expenditures were incurred related to the acquisition of the 20% working interest in the permit and reprocessing of seismic data.

The Company has the following commitments for Capital Expenditure at March 31, 2011:

Contractual Obligations	**Total $**	**Less than One Year $**	**More than One Year $**
Long term debt	-	-	-
Operating leases	-	-	-
Purchase obligations	-	-	-
Other long-term obligations (1)	11,608,000	11,608,000	-
Total Contractual Obligations (2)	11,608,000	11,608,000	-

(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: $4,900,000 relates to the building of the Sidewinder Production Facilities and $3,080,000 relates to the drilling of Sidewinder 4 and the completion and testing of Sidwinder 2, 3 and 4 wells.

PMP 38156: $2,940,000 relates to the completion of Cheal B4ST, drilling and completion of Cheal C1 well and reprocessing of existing 3D seismic data.

PEP 38348: $315,000 relates to the drilling of the two stratigraphic wells at Waitangi Hill.

PEP 38349: $329,000 relates to the drilling of one shallow core well to approximately 250 meters and field mapping.

PEP 50940: $14,000 relates to the remaining drilling costs for the eight stratigraphic wells.

PEP 52181: $30,000 relates to reprocessing seismic data

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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.

Selected Annual Financial Information

The following table summarizes selected annual information for the years ended March 31, 2011, 2010 and 2009.

		2011		**2010**		**2009**
Production revenue	$	13,088,423	$	6,527,585	$	4,923,856
Net loss		(453,001)		(2,600,542)		(18,874,565)
Net loss per share		(0.01)		(0.13)		(1.05)
Working capital		68,224,153		9,101,182		7,872,780
Total assets		105,326,302		21,128,486		13,122,711
Long term debt		-		-		-
Shareholders equity	$	94,866,181	$	17,328,488	$	13,044,266

Results of Operations

The Company recorded a net loss for the 2011 fiscal year of $453,001 ($0.01 loss per share - basic and fully diluted) compared to a loss of $2,600,542 ($0.13 loss per share – basic and fully diluted) for the same period last year. The 2010 loss consisted of a $1,431,979 write-off related to Austral Pacific shares owned by the Company that were issued as part of a settlement agreement related to a 2009 dispute. The 2009 fiscal year included a write down of approximately $19.56 million in PMP 38156.

The Company's revenue from oil and gas sales increased to $13,088,423 (2010: $6,527,585) and interest income increased to $386,892 (2010: $67,155) was recorded for the year. For comparative purposes, the Company owned a 30.5% interest in Cheal until October 2009, increasing to 100% thereafter. Interest income increased for the year when compared to last year as a result of larger cash balances from capital raising in the 2011 fiscal year.

Increased production revenue occurred as a result of the acquisition of the remainder of the Cheal interest from Austral Pacific, the optimization of existing wells and the drilling of additional successful wells in the Cheal permit. The Company's average selling price per barrel of oil for the year increased slightly to $86 per bbl compared to $85 in fiscal 2010. Production costs incurred during 2011 were $2,977,996 (2010: $1,538,111) resulting in a decrease in production costs per barrel to less than $20 (2010: $23 per bbl) in fiscal 2011 based on an averge of 413 barrels of oil produced per day in fiscal 2011 .

Please also refer to Note 6 of the accompanying audited consolidated financial statements.

During the year ended March 31, 2011, the Cheal oil and gas field produced 150,742 (2010: 117,979) gross barrels of oil and 151,586 (2010: 118,269) gross barrels of oil were sold with associated gas produced being used to generate electricity on-site with a small amount of excess gas and electricity being sold to independent third parties.The Company's100% share of oil produced and sold was150,742 (2010: 67,525) and 151,586 (2010: 77,206), respectively. Depletion amounted to $1,499,468 (2010: $824,945).

The Company recorded $3,577,366 (2010: 1,875,421) in royalty costs for the year ending March 31, 2011. Royalty costs incurred relate to crown royalty payments of 5% on net oil and gas proceeds received during the period ending March 31, 2011and a 25% royalty paid on net oil and gas proceeds from Cheal as part of the Company's agreement to acquire Austral's 69.5% interest in the Cheal oil and gas field. The Cheal overriding royalty agreement requires TAG to pay a 25% royalty on net sales revenue of the first 500,000 barrels of oil produced from the date of acquisition dropping to 7.5% royalty on net sales revenue thereafter. At March 31, 2011, 264,194 (2010: 95,452) barrels of oil had been produced from the date of the Cheal acquisition leaving 235,806 barrels of production required before the royalty reduction to 7.5%. Royalties recorded for the year ended March 31, 2010, as part of our Cheal acquisition completed during the quarter, include royalties for the period June 1, 2009 to 31 March, 2010.

Since the Company acquired its interest in PMP 38156 in June 2006, the Cheal oil and gas field has produced 646,087 barrels of oil to March 31, 2011. From November 2004 to March 31, 2011, however, the Cheal oil and gas field has produced 738,961 barrels of oil.

General and administrative ("G&A") costs for the 2011 fiscal year were $3,245,513 (2010: $2,082,581).

A comparative summary of the Company's G&A costs for the two-years ending March 31, 2011 and 2010 is as follows:

	2011	2010
Consulting fees	$ 196,998	$ 198,236
Directors fees	231,833	34,000
Filing, listing and transfer agent	157,747	113,745
Reports	85,214	58,899
Office and administration	268,943	119,718
Professional fees	208,765	200,566
Rent	99,481	62,617
Shareholder relations and communications	393,103	288,615
Travel	266,862	190,582
Wages	1,591,120	845,576
Overhead recoveries	(254,553)	(29,973)
	$ 3,245,513	$ 2,082,581

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 and gas 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. Director fees have increased related to operations, acquisitions and financing.

In addtion to the G&A costs above:

a. The Company recorded a foreign exchange loss for the year ended March 31, 2011 amounting to $468,329 compared to a foreign exchange loss of $702,186 last year. The foreign exchange loss for the year was caused by fluctuations of both the U.S. and New Zealand dollar in comparison to the Canadian dollar.

b. The Company recorded stock option compensation costs of $1,747,563 for the year ending March 31, 2011 (2010: $302,804) relating to the amortization of the fair value compensation cost of stock options previously granted and as a result of new stock options granted in the current fiscal year. Please refer to Notes 2 and 10 of the accompanying audited consoldiated financial statements for further information.

c. The Company incurred $174,934 of general exploration costs for the 2011 fiscal year (2010: $116,724).

d. 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 $83,928 (2010: nil) in ETS costs from the Cheal oil field for the 2011 fiscal year and the costs were not applicable in the 2010 fiscal year.

e. The Company recognized a gain of $77,623 from the sale of common shares from one of its investments. This compares to a loss on the investment in Austral Pacific Energy Ltd. of $1,431,979 during the 2010 fiscal year, of which, $1,219,858 had previously been included in the comprehensive loss at March 31, 2009.

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Summary of Quarterly Information

	2011				2010			
	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $
Total revenue	5,009,739	3,851,621	2,413,333	1,813,730	1,815,053	3,452,359	671,355	588,818
General and administrative	(932,714)	(1,194,580)	(545,603)	(572,616)	(777,131)	(607,320)	(370,297)	(327,833)
Foreign Exchange	704,791	(369,067)	(115,820)	248,425	(245,230)	(158,153)	(240,715)	(58,088)
Stock option compensation	(892,913)	(387,873)	(462,765)	(4,012)	(201,049)	(100,883)	-	(872)
Other	(3,692,280)	(2,160,341)	(1,797,968)	(1,366,088)	(1,447,490)	(2,249,764)	(1,971,222)	(372,080)
Net income (loss)	196,623	(260,240)	(508,823)	119,439	(855,847)	336,239	(1,910,879)	(170,055)
Basic income (loss) per share	0.00	(0.01)	(0.01)	0.00	(0.03)	0.02	(0.11)	(0.01)
Diluted income (loss) per share	0.00	(0.01)	(0.01)	0.00	(0.03)	0.02	(0.11)	(0.01)

Fourth Quarter 2011 Results

Production for the fourth quarter of 2011 averaged 539 barrels gross per day and the Company recorded a net profit of $196,623 (2010: net loss of $855,847) for the fourth quarter ended March 31, 2011, due primarily to increased production and not having costs associated with integrating the acquisition of Trans-Orient Petroleum Ltd. and the balance of the Cheal oil field as occurred in the fourth quarter of 2010.

The Company's revenue for the quarter consisted of 50,562 (2010: 26,162) barrels of oil sold at an average price of $100 per barrel (2010: $69 per barrel). The Company produced 48,542 (2010: 24,562) barrels of oil during the quarter at an average production cost of $17 per barrel (2010: $20 per barrel).

Production revenue of $5,009,739 (2010: $1,815,053) for the quarter was partially offset by $880,087 (2010: $528,120) in production costs, while depletion, depreciation and accretion amounted to $621,925 (2010: $276,747). Royalty costs amounted to $1,353,229 (2010: $462,648) relating to crown royalty payments of 5% on net oil and gas proceeds received during the period ending March 31, 2011 and a 25% royalty paid on net oil and gas proceeds from Cheal as part of the Company's agreement to acquire Austral's 69.5% interest in the Cheal oil and gas field.

Interest income of $195,314 (2010: $10,349) was recorded in the quarter.

G&A for the fourth quarter increased to $932,714 compared to $777,131 for the comparable quarter last year. The increase in G&A was due to additional resources required to operate the Company's assets and complete forward work programs.

Liquidity and Capital Resources

At March 31, 2011, the Company had $69,379,865 (2010: $9,846,019) in cash and cash equivalents and $68,224,153 (2010: $9,101,182) in working capital. As of the date of this report the Company is adequately funded to meet its capital and ongoing requirements for the next twelve months based on the current exploration and development programs and anticipated revenue from the Cheal and Sidewinder oil and gas fields. 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.

TAG Oil

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	3 wells completed
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	Completed
PEP 38348:	Drill two stratigraphic wells	250,000	513,000	Completed
	Drill one stratigraphic well	250,000	329,000	Completed
PEP 38349:	Drill one exploration well	2,500,000	2,500,000	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 workover 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. The Company drilled eight orientated core wells in permit PEP 50940 rather than undertaking the seismic survey originally planned. No other significant changes to the use of proceeds have been made by the Company at this time.

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	-	Changed program
	Drill five vertical wells		12,500,000	2012
	Drill five horizontal wells	16,250,000	-	Changed program
	Drill two horizontal wells	-	6,500,000	2012
	Optimization and water disposal wells	2,000,000	2,000,000	2012
PEP 38748	Drill two vertical wells Drill five horizontal wells	5,000,000 16,250,000	10,000,000 -	Completed 4 wells Changed Program
	Drill five vertical wells	-	12,500,000	2012/2013
	Construct production facilities	-	5,000,000	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	2012
PEP 38349:	Drill one stratigraphic well	200,000	200,000	2012
Working capital		2,066,400	1,853,740	
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 March 31, 2011, 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 7 of the accompanying audited consolidated interim financial statements.

Subsequent Events

On July 5, 2011, Mr. Keith Hill joined the Board of Directors replacing Mr. John Vaccaro.

Refer to Note 15 of the accompanying audited consolidated interim financial statements.

Share Capital

The Company has one class of common shares. As at March 31, 2011, there were 49,976,062 common shares outstanding and at July 29, 2011, there were 50,069,896 common shares outstanding.

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

The Company has a stock option plan. As at July 29, 2011, there were 3,734,214 stock options outstanding, of which 1,423,049 have vested.

The Company has 3,861,950 warrants outstanding at July 29, 2011.

Please refer to Notes 10 and 15 of the accompanying audited 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 audited 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.

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GAAP differences

Standard	**Difference and expected quantitative impact**
Property, Plant and Equipment	Under IFRS, Property, Plant and Equipment ("PP&E") can be measured at fair value or at cost while under Canadian GAAP, the Company has to carry PP&E on a cost basis and the revaluation is prohibited. In accordance with IAS 16 "Property, Plant and Equipment", upon acquisition of significant assets, the Corporation will need to allocate an amount initially recognized in respect of an asset to its component parts and accounts for each component separately when the components have different useful lives or the components provide benefits to the entity in a different pattern. The Corporation has reviewed the opening balance sheet at the Transition Date and determined there is no impact of Property, Plant and Equipment under IAS 16 but there is a non-cash impact resulting from using the functional currency by entity as discussed below.
Asset Impairment	Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with discounted cash flows. International Accounting Standard (IAS) 36, "Impairment of Assets" uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in write downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. The Corporation has assets for which impairment testing is required according to IAS 36 and has concluded that as at the Transition Date there is no impact on the opening balance sheet as asset impairment has been tested as part of the audit of the Corporations New Zealand subsidiaries.
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 (loss). The Corporation examined the non-cash impact of currency rates on the opening balance sheet at the Transition Date and determined Property and Equipment would decrease by $737,383 from $9,490,006 to $8,752,623 and Asset Retirement Obligations would increase by $86,968 from $2,297,171 to $2,384,139 with the non-cash loss of $824,351 recognized in accumulated other comprehensive income (loss).

Future Income Taxes	Like Canadian GAAP, deferred income taxes under IFRS are determined using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and by generally applying tax rates applicable to the Company to such temporary differences. Deferred income taxes relating to temporary differences that are recognized in equity and under IFRS subsequent adjustments thereto are backward traced to equity. IFRS prohibits recognition where deferred income taxes arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable net earnings. The Corporation expects the impact of implementing IAS 12, Income Taxes will not have a significant impact on the financial statements at the Transition Date.
Provisions, including Asset Retirement Obligations	Under Canadian GAAP, provisions are recorded when a present obligation exists as a result of past transactions or events, there is a likely outflow of resources required to settle the obligation and the amount of the obligation can be reliably estimated. Asset retirement obligations are recorded when a legal or contractual obligation exists. Provisions are recorded under IFRS when an outflow of resources is more likely than not, instead of the higher “Likely” threshold under Canadian GAAP. Other specific differences exist in relation to the methods used to estimate the amount of provisions. Asset retirement obligations are recorded when a legal, contractual or constructive obligation exists. The Corporation has examined provisions including Asset Retirement Obligations and determined there is no quantitative impact on the financial statements at the Transition Date.

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 other than non-cash translations into functional currency by entity. However, actual policy choices and results may differ materially than what is presented currently. Prepare 2011 opening balance sheets, reconciliations of 2011, and 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.

3. 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.

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

   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 have new controls over review of the changes to the Corporation’s Financial Statements and these controls include an enhanced review by the Corporation’s executive and Audit Committee.

5. 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.

6. 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.

DeVISSER GRAY LLP
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of TAG Oil Ltd.

We have audited the accompanying consolidated financial statements of TAG Oil Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at March 31, 2011 and 2010, and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TAG Oil Ltd. and its subsidiaries as at March 31, 2011 and 2010 and their financial performance and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"De Visser Gray LLP"

CHARTERED ACCOUNTANTS
Vancouver, BC
July 26, 2011

Consolidated Balance Sheets
Expressed in Canadian Dollars

As at March 31	2011	2010
Assets		
Current:		
Cash and cash equivalents (Note 2(f))	$ 69,379,865	$ 9,846,019
Amounts receivable and prepaids	4,084,391	357,027
Inventory (Note 2(m))	1,067,912	712,877
	74,532,168	10,915,923
Restricted cash	121,399	121,399
Property and equipment (Note 6)	29,758,181	9,490,006
Investments (Note 8)	914,554	601,158
	$ 105,326,302	$ 21,128,486
Liabilities and Shareholders' Equity		
Current:		
Accounts payable and accrued liabilities	$ 6,308,015	$ 1,466,941
Asset retirement obligations (Note 9)	-	347,800
	6,308,015	1,814,741
Asset retirement obligations (Note 9)	3,870,967	1,949,371
	10,178,982	3,764,112
Share capital (Note 10 (a))	152,908,074	76,228,207
Contributed surplus (Note 10 (a))	2,529,573	1,218,746
Deficit	(60,571,466)	(60,118,465)
	94,866,181	17,328,488
Accumulated other comprehensive income (Note 16)	281,139	35,886
	$ 105,326,302	$ 21,128,486

Nature of operations (Note1)
Commitments and contingencies (Note 13)
Subsequent events (Note 15)

See accompanying notes

Approved by the Board of Directors:

("*Garth Johnson*") ("*Ron Bertuzzi*")

Garth Johnson, Director Ron Bertuzzi, Director

TAG Oil

Consolidated Statements of Operations and Deficit
Expressed in Canadian Dollars

For the Years Ended March 31	2011	2010
Revenues		
Production revenue	$ 13,088,423	$ 6,527,585
Production costs	(2,977,996)	(1,538,111)
Royalties	(3,577,366)	(1,875,421)
	6,533,061	3,114,053
Expenses		
General and administrative (Note 7)	3,245,513	2,082,581
Depletion, depreciation and accretion	1,686,954	923,010
Directors & officers insurance	43,356	30,958
Foreign exchange	468,329	702,186
General exploration	174,934	116,724
Bad debts	-	26,571
Interest income	(386,892)	(67,155)
Legal settlement	-	(27,338)
Emissions trading scheme	83,928	-
Loss on sale of fixed asset	-	1,539
Realized (gain) loss on investment (Note 8)	(77,623)	1,431,979
Stock based compensation	1,747,563	302,804
Revaluation of inventory	-	126,785
Write-off of oil and gas properties	-	63,951
	(6,986,062)	(5,714,595)
Net loss for the year	(453,001)	(2,600,542)
Deficit, beginning of year	(60,118,465)	(57,517,923)
Deficit, end of year	$ (60,571,466)	$ (60,118,465)
Loss per share – basic (Note 2(k))	$ (0.01)	$ (0.13)
Weighted average number of shares outstanding	41,449,219	20,624,208

See accompanying notes.

TAG Oil

Consolidated Statements of Comprehensive Loss
Expressed in Canadian Dollars

For the years ended March 31,	2011	2010
Net loss for the year	$ (453,001)	$ (2,600,542)
Other comprehensive income (loss) in the year		
Change in fair value adjustment on available for sale financial instruments	322,876	(177,485)
Less realized (gain) / loss on investment reclassified to net income	(77,623)	1,431,979
Other comprehensive income in the year	245,253	1,254,494
Comprehensive loss for the year	$ (207,748)	$ (1,346,048)

See accompanying notes.

TAGOil

Consolidated Statements of Cash Flows
Expressed in Canadian Dollars

For the Years Ended March 31	2011	2010
Operating Activities		
Net loss for the year	$ (453,001)	$ (2,600,542)
Changes for non-cash operating items:		
Depletion, depreciation and accretion	1,686,954	923,010
Realized (gain) / loss on investment	(77,623)	1,431,979
Stock based compensation	1,747,563	302,804
Loss on sale of fixed assets	-	1,539
Write-off of oil and gas properties	-	63,951
Revaluation of inventory	-	126,785
	2,903,893	249,526
Changes for non-cash working capital accounts:		
Amounts receivable and prepaids	(3,727,364)	(144,973)
Accounts payable and accrued liabilities	24,395	140,341
Inventory	(355,035)	(60,239)
Cash (used in) provided by operating activities	(1,154,111)	184,655
Financing Activities		
Shares issued – net of share issue costs	76,243,131	92,994
Shares purchased and returned to treasury	-	(41,768)
Cash provided by financing activities	76,243,131	51,226
Investing Activities		
Restricted cash	-	(22,425)
Acquisition of Trans-Orient Petroleum Ltd.	-	4,842,890
Property and equipment expenditures	(15,564,654)	(2,302,633)
Sale / (purchase) of shares	9,480	(193,897)
Cash (used in) provided by investing activities	(15,555,174)	2,323,935
Net increase in cash during the year	59,533,846	2,559,816
Cash and cash equivalents - Beginning of year	9,967,418	7,286,203
Cash and cash equivalents - End of year (Note 2(f))	$ 69,501,264	$ 9,846,019

Supplementary cash flow disclosures:

	2011	2010
Interest received	$ 241,899	$ 67,155

Non-cash investing activities:

The Company incurred $6,072,838 (2010: $1,256,159) in exploration expenditures which amounts were in accounts payable at year end.

See accompanying notes.

Notes to the Consolidated Financial Statements
For the Years Ended March 31, 2011 and 2010
Expressed in Canadian Dollars

NOTE 1 - NATURE OF OPERATIONS

The Company is incorporated under the Business Corporations Act (British Columbia) and its major activity is the development and exploration of international oil and gas properties.

The Company is in the process of exploring, developing and producing from its oil and gas properties and has two oil and gas properties that contain 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 risks as well as commodity prices. In addition, the Company will use cash and operating cash flow to further explore and develop its properties towards planned principal operations. The Company monitors its cash and cash equivalents and adjusts its expenditure plans to conform to available funding. The Company plans to fund exploration and development activities through existing cash resources.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Accounting Principles and Use of Estimates

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

b) Financial Instruments

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

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

c) Basis of Consolidation

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

d) Joint Operations

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

e) Translation of Foreign Currencies

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

f) Cash and Cash Equivalents

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

g) Property and equipment

The Company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the acquisition, exploration, and development of oil and gas properties and equipment are capitalized and accumulated in cost centres by country. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals, seismic and costs of drilling productive and non-productive wells, together with overhead expenses related to acquisition, exploration and development activities. The costs in cost centres from which there has been no commercial production are not subject to depletion until commercial production commences. Depletion is calculated using costs of acquisition, exploration, development, estimated future development as well as dismantlement and abandonment costs, net of salvage values using the unit-of production method. An assessment is performed at every reporting date to determine whether the aggregate net costs in each pre-development stage cost centre are recoverable. Costs which are unlikely to be recovered are written-off. Oil and gas properties for which there has been commercial production, are subject to a ceiling test in each reporting period to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying values of the oil and gas properties. If the carrying value of the oil and gas properties is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds an estimated fair value. The fair value estimate is normally based on the sum of the discounted cash flows expected from production of proved and probable reserves at a discount rate of 10% and the lower of cost and market of unproved properties. The cash flows are estimated using forecast product prices and costs with the forecast product pricing being a constant price utilizing the actual oil price posted at March 31, 2011 and discounted using a risk-free interest rate of 10%.

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

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

h) Income Taxes

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

i) Share Capital

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

j) Stock-based Compensation

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

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

k) Loss per share

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

l) Asset retirement obligation

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

m) Inventory

Inventory is valued at the lower of cost and net realizable value with cost being determined using a first-in first-out basis. Inventory consists of oil stocks of $293,864 (2010: $274,835) and field operation consumables of $774,048 (2010: $438,042).

n) Oil and gas revenue recognition

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

o) Acquisitions

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

NOTE 3 – ACCOUNTING POLICIES ADOPTED IN 2011

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 for the first annual reporting period after January 1, 2011 with prospective application and early adoption permitted.

Consolidated Financial Statements

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

NOTE 4 – FUTURE CHANGES IN ACCOUNTING POLICIES

International Financial reporting Standards ("IFRS")

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company of April 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2012.

NOTE 5 – TRANS-ORIENT PETROLEUM LIMITED ACQUISITION

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

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

Calculation of purchase price:

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

Refer to Notes 6 and 10

NOTE 6 – PROPERTY AND EQUIPMENT

	Working Interest at March 31 2010/2011 %	Net Book Value at March 31, 2009	Additions During the 2010 Fiscal Year	Depletion Recoveries Write-offs	Net Book Value at March 31, 2010	Additions During the 2011 Fiscal Year	Depletion Recoveries Write-offs	Net Book Value at March 31, 2011
Oil and Gas Properties								
New Zealand								
Proved:								
PMP 38156	30.5/100	$ 4,170,662	$ 4,312,116	$ (824,945)	$ 7,657,833	$11,398,976	$ (1,682,391)	$ 17,374,418
Unproved:								
New Zealand:								
PEP 38748	100/100	76,025	165,924	(12,332)	229,617	9,634,499	-	9,864,116
PEP 38348	100/100	-	550,808	-	550,808	437,839	-	988,647
PEP 50940	100/100	-	49,122	-	49,122	91,956	-	141,078
PEP 38349	100/100	-	790,550	-	790,550	128,344	(2,014)	916,880
PEP 52181	-/20	-	-	-	-	127,879	-	127,879
PEP 38746	-/-	253,878	5,201	(259,079)	-	-	-	-
		4,500,565	5,873,721	(1,096,356)	9,277,930	21,819,493	(1,684,405)	29,413,018

Equipment		Net Book Value at March 31, 2009	Additions During the 2010 Fiscal Year	Amortization / Write-offs	Net Book Value at March 31, 2010	Additions During the 2011 Fiscal Year	Amortization / Write-offs	Net Book Value at March 31, 2011
Office equipment / leasehold improvements	100/100	47,314	227,764	(63,002)	212,076	234,590	(101,503)	345,163
Total		$ 4,547,879	$ 6,101,485	$ (1,159,358)	$ 9,490,006	$22,054,083	$ (1,785,908)	$ 29,758,181

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

PEP 38348, PEP 38349 and PEP 50940

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

PMP 38156

On September 7, 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 $477,082 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.

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

i) US$2,000,000 in cash;

ii) an initial 25% overriding royalty on net oil sale revenue per barrel on PMP 38156-S and PEP 38738-01 for the first 500,000 barrels of shallow oil produced (reduced to 7.5% for the life of the field after 500,000 barrels of oil have been produced);

iii) certain permit work commitments that include optimization and drilling operations to be completed in the next 30 months;

iv) a first ranking security interest over all oil produced and the proceeds of all oil produced from PMP 38156-S and PEP 38738-S to secure royalty payments and performance of certain permit work commitments.

PEP 38748

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

The Company began the construction of production facilities at the Sidewinder oil and gas field on permit PEP 38748 incurring $333,240 of expenditures by 31 March 2011.

PEP 38746

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

PEP 52181

On December 10, 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.

Refer to Notes 5 and 9.

NOTE 7 – RELATED PARTY TRANSACTIONS

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

Pursuant to an agreement dated October 1, 2007, the Company paid an insider of the Company $87,500 (2010: $60,000) 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 $231,833 (2010: $79,000).

Beginning on March 15, 2011, the Company entered into a rental agreement with a private company owned by a Director for $7,000 per month for office space.

NOTE 8 – INVESTMENTS

At March 31, 2011, the Company's ownership interests in investments accounted for under the cost method of accounting are as follows:

	March 31, 2011		March 31, 2010	
	Number of Common Shares Held	Market Value	Number of Common Shares Held	Market Value
Equity securities available for sale	4,373,734	$ 914,554	4,973,734	601,158

During the year ended March 31, 2011, the Company sold 1,095,000 common shares of its investments realizing a gain of $77,623.

During the year ended March 31, 2010, the Company recognized a loss on an investment of $1,431,979, of which $1,219,858 had previously been included in comprehensive loss at March 31, 2009.

NOTE 9 – ASSET RETIREMENT OBLIGATIONS

The following is a continuity of asset retirement obligations:

Balance at March 31, 2009	$ 812,522
Revision in estimated obligations	1,436,245
Accretion expense	48,404
Balance at March 31, 2010	2,297,171
Revision in estimated obligations	1,487,813
Accretion expense	85,983
Balance at March 31, 2011	$ 3,870,967

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas development activity and, during the year ended March 31, 2011, the Company recorded an additional liability of $1,487,813. The Cheal field asset retirement obligations were revised to take account of additional wells drilled on the permit and the extended life of the field. Due to a change in estimate, liabilities for the East Coast permits were transferred to long term liabilities to reflect the obligation being incurred at a later date. Obligations to retire a new well site and wells at the Sidewinder discovery were added in the fiscal 2011 year and the acquisition of the Cheal deep permit resulted in additional obligations related to an existing well and well site.

The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately $4,204,076.

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%. The corresponding amount is recognized by increasing the carrying amount of the oil and gas properties.

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NOTE 10 - SHARE CAPITAL

a) Authorized and Issued Share Capital

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

Issued and fully paid:	Number of Shares	Amount	Contributed Surplus
Balance at March 31, 2009	16,953,222	$ 69,644,677	$ 917,512
Shares purchased and returned to treasury	(143,500)	(41,768)	-
Issue of new shares – Trans-Orient acquisition	13,053,696	6,530,734	-
Exercise of stock options	49,857	92,994	-
Fair value of stock options exercised	-	1,570	(1,570)
Stock based compensation	-	-	302,804
Balance at March 31, 2010	29,913,275	$ 76,228,207	$ 1,218,746
Issue of new shares	19,250,000	74,697,979	-
Exercise of stock options	593,737	756,572	-
Exercise of broker warrants	207,900	748,440	-
Exercise of warrants	11,150	40,140	
Fair value of stock options exercised	-	450,497	(450,497)
Fair value of broker warrants granted	-	(164,631)	164,631
Fair value of broker warrants exercised	-	150,870	(150,870)
Stock based compensation	-	-	1,747,563
Balance at March 31, 2011	49,976,062	$ 152,908,074	$ 2,529,573

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 $56,163,805.

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.

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

On May 27, 2009, the Company filed a Form 15F with the U.S. Securities and Exchange Commission (“SEC”) and terminated the registration of its common shares under section 12(g) of the Securities Exchange Act.

b) Incentive Stock Options

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

The following is a continuity of outstanding stock options:

	Number of Options	Weighted Average Exercise Price (1)
Balance at March 31, 2009	222,000	$ 3.78
Granted during the year	1,075,000	1.52
Trans-Orient options converted to TAG options	694,642	1.47
Expired during the year	(80,000)	3.25
Exercised during the year	(49,857)	1.85
Balance at March 31, 2010	1,861,785	1.66
Granted during the year	25,000	2.41
Granted during the year	75,000	2.65
Granted during the year	650,000	2.60
Granted during the year	1,255,000	7.15
Exercised during the year	(476,666)	1.25
Exercised during the year	(103,571)	1.39
Exercised during the year	(13,500)	1.26
Expired during the year	(45,000)	5.60
Balance at March 31, 2011	3,228,048	$ 4.03

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

The following summarizes information about stock options that are outstanding at March 31, 2011:

Number of Shares	Price per Share	Weighted Average Remaining Contractual Life	Expiry Date	Options Exercisable
65,000	$3.50	0.01	August 2, 2011	65,000
333,928	$1.38	0.20	March 14, 2013	333,928
71,429	$2.27	0.05	June 26, 2013	71,429
17,857	$1.51	0.01	July 21, 2013	17,857
136,500	$1.26	0.15	October 28, 2014	136,500
423,334	$1.25	0.47	October 28, 2014	423,334
175,000	$2.90	0.21	February 9, 2015	116,667
25,000	$2.41	0.03	April 1, 2015	16,667
75,000	$2.65	0.10	August 16, 2015	25,000
650,000	$2.60	0.90	September 9, 2015	216,667
1,255,000	$7.15	1.89	February 8, 2016	-
3,228,048		4.02		1,423,049

Stock options 2011

On April 1, 2010, the Company granted a total of 25,000 stock options to a consultant pursuant to its incentive stock option plan. These new options are exercisable at $2.41 per share until April 1, 2015 and will vest over a period of eighteen months.

On August 16, 2010, the Company granted a total of 75,000 stock options to a consultant pursuant to its incentive stock option plan. These new options are exercisable at $2.65 per share until August 16, 2015 and will vest over a period of eighteen months.

On September 9, 2010, the Company granted a total of 650,000 stock options to officers and consultants pursuant to its incentive stock option plan. These new options are exercisable at $2.60 per share until September 9, 2015 and will vest over a period of eighteen months.

On February 8, 2011, the Company granted a total of 1,255,000 stock options to officers and consultants pursuant to its incentive stock option plan. These new options are exercisable at $7.15 per share until February 8, 2016 and will vest over a period of eighteen months.

During the year ended March 31, 2011, 593,737 stock options were exercised for $756,572.

45,000 stock options expired during the year ended March 31, 2011.

Stock options 2010

On October 28, 2009, the Company granted a total of 900,000 stock options to directors, officers and consultants pursuant to its incentive stock option plan. These new options are exercisable at $1.25 per share until October 28, 2014 and will vest over a period of eighteen months.

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

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

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

Stock based compensation

The Company applied the Black-Scholes option pricing model using the closing market prices on the grant dates and during 2011 and 2010 the Company has calculated option benefits using a volatility ratio of 75% (2010: 75%) and a risk free interest rate of 2.5% (2010: 3.5%) to calculate option benefits. The fair value of the option benefit is amortized over the vesting period of the options, generally being eighteen months. During the 2011 fiscal year the Company recorded a total option benefit of $1,747,563 (2010: $302,804).

c) Share Purchase Warrants

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

	Number of Share Purchas 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 broker warrants during the year	(207,900)	3.60	-
Exercised share purchase warrants during the year	(11,150)	3.60	-
Balance at March 31, 2011	3,861,950	$ 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 twelve month period ended March 31, 2011 is 41,449,219 (2010: 20,624,208) and diluted weighted average shares outstanding for the period was 50,753,686 (2010: 22,557,421). Stock options and share purchase warrants outstanding are not included in the computation of the diluted loss per share as the inclusion of such securities would be anti-dilutive.

Refer to Note 15

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NOTE 11 – CAPITAL MANAGEMENT

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

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

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

NOTE 12 – FINANCIAL INSTRUMENTS

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

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

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

a) Credit Risk

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

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

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at December 31, 2011 and did not provide for any doubtful accounts. During the fiscal year ended March 31, 2011 the Company was required to write-off $Nil (2010 – $26,571). As at March 31, 2011 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 March 31, 2011 of $69.4 million (2010: $9.97 million), the Company's liquidity risk is assessed as low. As at March 31, 2011 the Company's financial liabilities included accounts payable and accrued liabilities of $6,308,015 (2010: $1,466,941) and asset retirement obligations of $3,870,967 (2010: $2,297,171).

c) Market Risk

Market risk is the risk that changes in foreign exchange rates, commodity prices and interest rates will affect the Company's cash flows, net income and comprehensive income. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. Changes to commodity prices materially affected the Company's cash flow and net income in the 2011 fiscal year.

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d) Foreign Currency Exchange Rate Risk

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

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

e) Commodity Price Risk

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

The Company did not have any commodity price contracts in place as at or during the year ended March 31, 2011.

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 year ended March 31, 2011 and any variations in interest rates would not have materially affected net income.

g) Fair Value of Financial Instruments

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

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

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

	Fair Value Level	2011		2010	
		Available for sale at fair value	Receivables/ other financial liabilities at amortized cost	Available for sale at fair value	Receivables/ other financial liabilities at amortized cost
Financial assets:					
Cash and cash equivalents	1	$ 69,379,865	$ -	$ 9,846,019	$ -
Amounts receivable		-	3,990,814	-	260,982
Restricted Cash	1	121,399	-	121,399	-
Investments	1	914,554	-	601,158	-
		$ 70,415,818	$ 3,990,814	$ 10,568,576	$ 260,982
Financial liabilities:					
Accounts payable and accrued liabilities		$ -	$ 6,308,015	$ -	$ 1,466,941
		$ -	$ 6,308,015	$ -	$ 1,466,941

TAG Oil

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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

Oil and Gas Property	Working Interest %	Work Commitment or Obligation as at March 31, 2011
PMP 38156	100	$ 2,940,000
PEP 38748	100	7,980,000
PEP 38348	100	315,000
PEP 50940	100	14,000
PEP 38349	100	329,000
PEP 52181	20	30,000
Total		$ 11,608,000

NOTE 14 - INCOME TAXES

	2011	2010
Net loss for the year	$ (453,001)	$ (2,600,542)
Expected income tax recovery	(76,589)	(765,698)
Net adjustment for amortization, deductible and non-deductible amounts	(2,439,176)	(498,076)
Valuation allowance	2,515,765	1,263,774
Total income taxes	$ -	$ -

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

	2011	2010
Future income tax assets (liabilities):		
Net property and equipment carrying amounts in excess of tax pools	$ (6,249,199)	$ (869,516)
Non-capital loss carryforwards and share issue costs	12,059,224	10,477,750
	5,810,025	9,608,234
Valuation allowance	(5,810,025)	(9,608,234)
	$ -	$ -

The Company has Canadian non-capital losses of approximately $10.7 million (2010 - $10.3 million), which are available to reduce future taxable income. These expire between 2011 and 2031. Subject to certain restrictions the Company also has mineral property expenditures of approximately $4.08 million (2010 - $4.08 million) available to reduce taxable income in future years.

At March 31, 2011, the Company also has losses and deductions of approximately NZ$40 million (March 31, 2010 - NZ$33.6 million) available to offset future taxable income earned in New Zealand. These tax losses are available to be carried forward indefinitely as long as shareholder continuity is maintained.

NOTE 15 – SUBSEQUENT EVENTS

On April 6, 2011, the Company's common shares began to trade on OTCQX international. The trading symbol is TAOIF.

On May 2, 2011, The Company granted 100,000 incentive options to an employee. These options are exercisable until May 2, 2016, at a price of $5.82 per share, subject to 1/3 of the total options vesting every six months from the date of grant over a period of eighteen months.

On July 5, 2011, the Company granted 500,000 incentive stock options to certain directors and officers. These options are exercisable until July 5, 2016, at a price of $6.15 per share, subject to 1/3 of the total options vesting every six months from the date of grant over a period of eighteen months.

On July 6, 2011, the Company's common shares graduated from TSX Venture and began trading on the Toronto Stock Exchange (TSX).

Subsequent to the year ended March 31, 2011, 93,834 options were exercised for proceeds of $207,498.

TAG Oil

NOTE 16 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	2011	2010
Accumulated other comprehensive income (loss), beginning of year	$ 35,886	$ (1,218,608)
Other comprehensive income (loss) in the year	245,253	1,254,494
Accumulated other comprehensive income, end of year	$ 281,139	$ 35,886
Components of accumulated other comprehensive income, March 31		
Unrealized gains on investments	$ 281,139	$ 35,886
	$ 281,139	$ 35,886

NOTE 17 – SEGMENTED INFORMATION

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

2011	**Canada**	**New Zealand**	**Total Company**
Production revenue	$ -	$ 13,088,423	$ 13,088,423
Royalty expenses	-	(3,577,366)	(3,577,366)
	-	9,511,057	9,511,057
Expenses:			
General and administrative	(2,175,164)	(1,070,349)	(3,245,513)
Depletion, depreciation and accretion	(56,985)	(1,629,969)	(1,686,954)
Directors and officers insurance	(43,356)	-	(43,356)
Foreign exchange	(206,039)	(262,290)	(468,329)
General exploration	-	(174,934)	(174,934)
Interest income	348,392	38,500	386,892
Production costs	-	(2,977,996)	(2,977,996)
Emissions trading scheme	-	(83,928)	(83,928)
Realized gain on investment	77,623	-	77,623
Stock based compensation	(1,747,563)	-	(1,747,563)
Net loss for the year	$ (3,803,092)	$ 3,350,091	$ (453,001)
Total assets	$ 65,438,682	$ 39,887,620	$ 105,326,302
Capital expenditures for the year	$ 57,113	$ 21,996,970	$ 22,054,083

TAG Oil

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

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

Alex Guidi
Director
Vancouver, British Columbia

Keith Hill
Director
Vancouver, British Columbia

Ronald Bertuzzi
Director
Vancouver, British Columbia

Blair Johnson
CFO
Auckland, New Zealand

Drew Cadenhead
COO
New Plymouth, New Zealand

Giuseppe (Pino) Perone
Corporate Secretary
Vancouver, British Columbia

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 July 29, 2011, there were
50,069,896 shares issued and outstanding.
Fully diluted: 57,666,060 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 will be held
on December 9, 2011 at 10:00am at the
offices of Blake, Cassels & Graydon located at
Suite 2600, 595 Burrard Street
Vancouver, B.C. V7X 1L3

SHARE LISTING

Toronto Stock Exchange (TSX)
Trading Symbol: TAO
Warrant Symbol: TAO.WT
OTCQX: TAOIF

SHAREHOLDER RELATIONS

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