



Arsenal Energy Inc.

BACK TO GRASS ROOTS EXPLORATION



## ARSENAL ENERGY INC. AND GEOCAN ENERGY INC. ANNOUNCE EXECUTION OF ARRANGEMENT AGREEMENT

**CALGARY, ALBERTA. August 7, 2008.** Arsenal Energy Inc. (TSX: AEI) ("Arsenal") and GEOCAN Energy Inc. (TSX: GCA) ("GEOCAN") are pleased to announce that they have entered into an arrangement agreement (the "Arrangement Agreement") providing for the acquisition by Arsenal of GEOCAN pursuant to a plan of arrangement under the *Business Corporations Act* (Alberta) (the "Arrangement"). Under the Arrangement, Arsenal will acquire all of the outstanding class "A" common shares of GEOCAN ("GEOCAN Shares") for consideration of \$0.70 per GEOCAN Share, payable, at the election of each GEOCAN shareholder, in cash or 0.81 of a common share of Arsenal ("Arsenal Shares"). The consideration to be paid by Arsenal under the Arrangement of \$0.70 per GEOCAN Share represents a premium of 29% over the five day weighted average trading price of the GEOCAN Shares to and including August 7, 2008 of \$0.541. The value of the total consideration to be paid by Arsenal for the GEOCAN Shares, based upon a share value of \$0.865 for each Arsenal Share and taking into account assumed debt of approximately \$8 million, is approximately \$47.2 million.

A maximum aggregate of \$30,000,000 and a minimum aggregate of \$26,000,000 in cash will be payable to the GEOCAN shareholders under the Arrangement. In the event that the GEOCAN shareholders elect, in the aggregate, to receive more than \$30,000,000 in cash, the amount of cash to be received by a holder electing to receive cash with respect to a GEOCAN Share will be reduced proportionately and the balance of the purchase price for that GEOCAN Share will be paid by a portion of an Arsenal Share at a deemed price of \$0.865 per Arsenal Share. In the event that the GEOCAN shareholders elect, in the aggregate, to receive less than \$26,000,000 in cash, the number of Arsenal Shares to be received by a holder electing to receive Arsenal Shares with respect to a GEOCAN Share will be reduced proportionately and the balance of the purchase price for that GEOCAN Share will be paid in cash.

The Arrangement requires the approval of the holders of GEOCAN Shares. The Arrangement Agreement provides that GEOCAN shall call and hold a special meeting of the GEOCAN shareholders by no later than October 6, 2008 for the purposes of considering the Arrangement. The Arrangement is subject to the approval of the Court of Queen's Bench of Alberta, the TSX and all applicable regulatory authorities. Completion of the Arrangement is also subject to a number of additional conditions set out in the Arrangement Agreement.

Under the Arrangement Agreement, GEOCAN and Arsenal have each agreed that they will not solicit or initiate any discussions concerning any business combination or the sale of material assets. The Arrangement Agreement provides for a mutual non-completion fee of \$1.7 million if the Arrangement is not completed in certain circumstances.

A copy of the Arrangement Agreement will be filed on SEDAR and will be available for viewing under the profiles of Arsenal and GEOCAN at [www.sedar.com](http://www.sedar.com).

The Board of Directors of GEOCAN has unanimously determined that the Arrangement and Arrangement Agreement are in the best interests of GEOCAN and the GEOCAN shareholders. The Board of Directors of GEOCAN unanimously recommends that the GEOCAN shareholders approve the Arrangement.

Tristone Capital Inc. is acting as exclusive financial advisor to GEOCAN with respect to the Arrangement and has provided the Board of Directors of GEOCAN with a verbal opinion that the consideration to be received by the GEOCAN shareholders under the Arrangement is fair, from a financial point of view, to the GEOCAN shareholders and have agreed to deliver a written opinion to that effect, subject to receipt and review of final documentation.

Emerging Equities Inc. is acting as exclusive financial advisor to Arsenal with respect to the Arrangement.

All of the directors and officers of GEOCAN, holding a total of 3,775,148 GEOCAN Shares, representing approximately 6.7% of the outstanding GEOCAN Shares, have entered into agreements with Arsenal pursuant to which they have agreed to vote their GEOCAN Shares in favour of the Arrangement.

If all necessary approvals are obtained and the conditions contained in the Arrangement Agreement are met, Arsenal and GEOCAN anticipate that the Arrangement will become effective on or about October 7, 2008.

The key metrics of the Arrangement with respect to Arsenal are as follows:

● Estimated Purchase Price (millions)	\$ 47.1
● Price Per Flowing Boe/d (850 Boe/d)	\$ 55,412
● Price Per Proven Producing Boe	\$ 25.50
● Estimated GEOCAN Q2 2008 Operating Margin (per Boe)	\$ 46.41
● Proven Producing Recycle Ratio	1.8

Arsenal and GEOCAN believe that the combination of the two corporations pursuant to the Arrangement would have the following benefits:

- The increased size of the combined corporation will contribute to lower average operating expenses and cost of capital, overhead synergies and higher financial leverage;
- The combined corporation will have a complimentary fit of assets as approximately 40% of GEOCAN's current production is in Arsenal's core east central Alberta area; and
- The addition of GEOCAN's core Northeast British Columbia property, where approximately 40% of GEOCAN's current production is located, to the combined corporation will provide a further core property for development. Arsenal will also acquire new exploration plays in Ochre and Tomahawk as well as 82,000 net acres of undeveloped land,

providing additional potential upside to the combined corporation's shareholders.

Key attributes of the combined corporation (assuming the maximum aggregate of cash of \$30.0 million is paid by Arsenal to GEOCAN shareholders) include:



### Reader Advisory

This press release does not constitute an offer to sell or the solicitation of an offer to buy any securities of Arsenal within the United States. The securities of Arsenal have not been and will not be registered under the *United States Securities Act of 1933*, as amended (the "1933 Act"), or any state securities laws. Accordingly, the Arsenal Shares may not be offered or sold in the United States or to U.S. persons (as such terms are defined in Regulation S under the 1933 Act) unless registered under the 1933 Act and applicable state securities laws or an exemption from such registration is available.

### Forward Looking Statements

This press release contains forward-looking statements. More particularly, this press release contains statements concerning the anticipated dates for the holding of the GEOCAN shareholder meeting and the anticipated date for the completion of the Arrangement. Arsenal and GEOCAN have provided these anticipated dates in reliance on certain assumptions that they believe are reasonable at this time, including assumptions as to the time required to prepare meeting materials for mailing, the timing of receipt of the necessary regulatory and court approvals and the time necessary to satisfy the conditions set out in the Arrangement Agreement. These dates may change for a number of reasons, including unforeseen delays in preparing meeting materials, inability to secure necessary regulatory or court approvals in the time assumed or the need for additional time to satisfy the conditions to the completion of the Arrangement. The Arrangement may not be completed on the timelines indicated or at all. Accordingly, readers should not place undue reliance on the forward-looking statements contained in this press release.

This press release also contains forward-looking statements concerning estimated production, cash flow and net debt. These forward-looking statements are based on certain key expectations and assumptions made by Arsenal and GEOCAN, including expectations and assumptions concerning prevailing commodity prices and exchange rates, availability and cost of labour and services, the timing of receipt of regulatory approvals, the performance of existing wells, the success obtained in drilling new wells, the performance of new wells and the sufficiency of budgeted capital expenditures in carrying out planned activities. Although Arsenal and GEOCAN believe that the expectations and assumptions on which these forward-looking statements are based are reasonable, undue reliance should not be placed on these forward-looking statements because Arsenal and GEOCAN can give no assurance that they will prove to be correct. Actual results could differ materially from those currently anticipated due to a number of

factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Certain of these risks are set out in more detail in the Annual Information Forms of Arsenal and GEOCAN which have been filed on SEDAR and can be accessed at [www.sedar.com](http://www.sedar.com).

### Barrel of Oil Equivalent

In this press release, a "Boe" refers to a barrel of oil equivalent on the basis of 1 Boe to 6 thousand cubic feet of natural gas. Boe's may be misleading, particularly if used in isolation. A Boe conversion ratio of 1 Boe for 6 thousand cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

### Contact Information

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