

# ARSENAL ENERGY INC.

(TSX – AEI)

## Arsenal Energy Announces Operational Update on Reserves

**CALGARY, January 28, 2010** – Arsenal Energy Inc. (“Arsenal”) (TSX: AEI) is pleased to provide an operational update on reserves as at December 31, 2009, as independently evaluated by AJM Petroleum Consultants (“AJM”), in accordance with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Reserves* (“NI 51-101”). Arsenal’s full NI 51-101F1 – *Statement of Reserves Data and Other Oil and Gas Information* will be filed in Arsenal’s Annual Information Form on SEDAR – [www.SEDAR.com](http://www.SEDAR.com) by no later than March 31, 2010.

### Highlights

- Replaced 137% of P+P reserves sold and produced
- Increased oil weighting from 70% to 85% of P+P reserves.
- Increased proved portion of P+P reserves from 61% to 65%
- Increased P+P NAV from \$1.25/share to \$1.47/share

### Reserves Summary

The following tables summarize certain information related to Arsenal’s oil and gas reserves as of December 31, 2009 based on forecast price and cost assumptions:

	Light/Medium Oil		Heavy Oil		Natural Gas Liquids		Natural Gas		Barrels of Oil Equivalent <sup>3</sup>	
	Company Gross (Mbbbl) <sup>1</sup>	Company Net (Mbbbl) <sup>2</sup>	Company Gross (Mbbbl) <sup>1</sup>	Company Net (Mbbbl) <sup>2</sup>	Company Gross (Mbbbl) <sup>1</sup>	Company Net (Mbbbl) <sup>2</sup>	Company Gross (MMcf) <sup>1</sup>	Company Net (MMcf) <sup>2</sup>	Company Gross (Mbbbl) <sup>1</sup>	Company Net (Mbbbl) <sup>2</sup>
Proved Producing	1,889	1,558	274	249	132	100	3,956	3,208	2,955	2,443
Proved Non-producing	98	78	19	18	9	6	874	701	271	219
Proved Undeveloped	2,367	1,909	19	17	3	3	21	21	2,392	1,932
Total proved	4,354	3,545	312	284	144	110	4,850	3,930	5,618	4,593
Probable	2,057	1,667	491	424	55	42	2,613	2,059	3,039	2,476
Total proved & probable	6,411	5,212	803	708	198	152	7,464	5,989	8,657	7,069

### Reserves Values

The estimated future net revenues before taxes associated with Arsenal’s reserves effective December 31, 2009 and based on the AJM’s future price forecast are summarized in the following table:

	0%DCF (\$000s Cdn)	5% DCF (\$000s Cdn)	10% DCF (\$000s Cdn)	15% DCF (\$000s Cdn)
Proved Producing	96,921	77,299	65,681	57,705
Proved Non-producing	8,755	7,643	6,809	6,151
Proved Undeveloped	125,871	82,462	59,355	45,025
Total proved	231,546	167,404	131,845	108,881
Probable	184,832	103,021	68,987	50,628
Total proved & probable	416,379	270,425	200,832	159,509

### **Price Forecast**

AJM employed the following pricing, exchange rate and inflation rate assumptions in estimating Arsenal's reserves data using forecast prices and costs as of December 31, 2009:

Year	WTI Cushing Oklahoma (\$US/bbl)	Edmonton Par Price 40 <sup>o</sup> API (\$Cdn/bbl)	Natural Gas AECO-C Price (\$Cdn/Mmbtu)	NGLs Edmonton Butanes Plant Gate (\$Cdn/bbl)	NGLs Edmonton Pentanes Plant Gate (\$Cdn/bbl)	Inflation Rate (%)	Exchange Rate (\$US/\$Cdn)
Forecast							
2010	75.00	77.55	5.80	62.05	81.45	2.00	0.95
2011	81.60	84.45	6.70	67.55	88.65	2.00	0.95
2012	85.85	88.90	7.05	71.10	93.35	2.00	0.95
2013	90.20	93.45	7.45	74.75	98.15	2.00	0.95
2014	97.40	101.05	7.55	80.85	106.10	2.00	0.95
Thereafter				Escalation rate of 2%			

Arsenal Yearend 2009 Reserve Reconciliation						
AJM Forecasted prices before tax						
	31/12/08	Acquired/ Sold	Production <sup>4</sup>	Adds/Revisions Accretion	31/12/09	
TP (Mboe)	5,109	-603	-785	1,897	5,618	
TP value (10%DNAV/MM\$) Cdn	103.3	-5.4	-15.8	49.7	131.8	
P+P (boe)	8,267	-1,014	-785	2,189	8,657	
P+P value (10% DNAV/MM\$)Cdn	166.4	-5.4	-15.8	55.6	200.8	

Based on the Q4 estimated production rate of 2,060 Boe/d, Arsenal has a reserve life of 7.5 years based on total proved and 11.5 years based on proved plus probable.

2009 Reserve addition costs				
	Reserve Adds Mboe	2009 Capex MM\$ <sup>4,5</sup> Cdn	Change in Future Capex MM \$ Cdn	FD&A costs \$/BOE
Total Proved	1,294	4.7	21.0	19.86
Proved + Probable	1,175	4.7	19.5	20.60

On a total proved basis, reserves increased by 1.897 MBoe and reserves/share increased by 0.16 Boe (34%). Additions replaced production by 242%.

On a proved plus probable basis, reserves increased by 2.189 MBoe and reserves/share increased by 0.018 Boe/share (25%).

Arsenal Year/Year Net Asset Value	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09
P+P PV 10 (10% DNAV/MM\$)	77.1	87.6	166.4	200.8
Land <sup>7</sup>	1.5	1.5	2.0	2.0
Seismic <sup>8</sup>	0.3	0.8	0.9	1.0
Debt + Working Capital (MM\$) <sup>9</sup>	-28.5	-20.7	-41.8	-27.0
NAV (MM\$)	50.4	69.2	127.5	176.8
Shares Outstanding (MM) <sup>6</sup>	73.3	83.7	101.6	120.5
NAV/Share (\$/share)	0.69	0.83	1.25	1.47

Notes:

- 1) "Company Gross" reserves means Arsenal's working interest (operating & non-operating) share before deduction of royalties and excluding any royalty interest.
- 2) "Net" reserves means Arsenal's working interest (operated & non-operated) share after deduction of royalties, plus Arsenal's royalty interest in reserves.
- 3) Oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil.
- 4) Numbers are unaudited management estimates.
- 5) Capital includes costs and proceeds of property sales and acquisitions.
- 6) Undiluted
- 7) 50,000 acres of undeveloped land at \$40/acre
- 8) 180 km<sup>2</sup> of proprietary seismic at \$5,500/km<sup>2</sup>
- 9) unaudited

Arsenal is a junior oil and gas company engaged in the exploration for, and development and production of natural gas and oil reserves primarily in Alberta and Saskatchewan and North Dakota, U.S.A. Arsenal's common shares trade on the Toronto Stock Exchange under the symbol "AEI".

For further information on Arsenal, please visit our website at [www.arsenalenergy.com](http://www.arsenalenergy.com), e-mail [info@arsenalenergy.com](mailto:info@arsenalenergy.com) or contact:

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### **Cautionary Statement**

This press release contains certain forward-looking statements and forward-looking information (collectively, "forward-looking statements") within the meaning of applicable Canadian securities laws. These statements relate to future events and future performance and are based upon expectations, estimates, projections, assumptions and beliefs. Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although Arsenal believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Arsenal cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by Arsenal that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements. In particular, this press release contains forward-looking statements pertaining to the following: expectations of future oil and natural gas production, reserves and commodity prices and the filing of certain oil and gas information in Arsenal's Annual Information Form. With respect to forward-looking statements contained in this press release, certain assumptions have been made regarding, among other things, future prices for crude oil and natural gas (as set out in AJM's price forecast and future), currency and interest rates. Some of the risks which could cause results to differ materially from those expressed in the forward-looking statements contained in this press release include: general economic conditions in Canada, the United States and globally; industry conditions, including fluctuations in the price of oil and natural gas; governmental regulation of the oil and gas industry, including environmental regulation; fluctuations in foreign exchange or interest rates; changes in hydrocarbon or investment policies; geological, technical, drilling and processing problems and other difficulties in producing reserves; failure to realize anticipated benefits of acquisitions; or unanticipated operating events which can reduce production or cause production to be shut in or delayed.

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future. Readers are cautioned that the foregoing list of factors is not exhaustive. The forward-looking statements contained in this press release are expressly qualified by this cautionary statement. Arsenal is not under any duty to update any of the forward-looking statements after the date of this press release to conform such statements to actual results or to changes in Arsenal's expectations, except as otherwise required by applicable securities laws.

In this press release where amounts are expressed on a barrel of oil equivalent ("BOE") basis, natural gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel. The term BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet per barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Estimates of future net revenue do not represent fair market values.