

ARSENAL ENERGY INC.

(TSX – AEI)

ARSENAL ENERGY RELEASES Q1 RESULTS

Arsenal Energy is pleased to release a summary of its Q1 financial and operating results. During 2009 Arsenal executed on its priorities of proving the Bakken potential of its North Dakota acreage and of reducing its debt. Arsenal's prime objective for 2010 is to increase production with a targeted 2010 exit level of 3000 boe/d. During the first quarter, Arsenal brought on new production at Evi and at Galahad. Production for the quarter increased to 2154 boe/d from 1927 boe/d in the fourth quarter of 2009. The Company expects to participate in six (two net) Bakken drills over the first half of 2010. These wells should materially increase production and cash flow over the next two quarters.

Full details are contained in the financial statements and MD&A filed on SEDAR and on the Company's website.

	Three Months Ended March 31	
	2010	2009
Financial		
Net Loss	(1760016)	(3071711)
Per diluted share	(0.01)	(0.03)
Funds from Operations	5278757	10315270
Per diluted share	0.04	0.10
Total net Debt	20318893	40124195
Shares outstanding	134773390	101249646
Operations		
Production (boe/d)	2154	2330
Revenue (per boe)	59.77	38.01
Operating Expenses (per boe)	(19.03)	(17.43)
Royalties (per boe)	(8.79)	(8.58)
Transportation Expenses (per boe)	(1.23)	(1.01)
Operating Net back (per boe)	30.73	10.99
Capital		
Net Wells Drilled		
Oil	1.84	0.33
Gas	-	-
Dry	-	-
Capital expenditures	8633950	2575061
Property dispositions	(214831)	(839375)

Financial

Arsenal had cash flow of \$5.3 million (.04/share) for the first quarter. Cash flow in Q1 2009 was \$10.3 million, but included \$9.1 million from hedge settlements versus \$0.3 million during Q1 2010. Net loss for Q1 2010 was \$1.8 million.

Arsenal has hedged 600 bbl/d of oil at \$85.45/bbl and 1000 GJ of gas at \$6.78/GJ for the remainder of 2010. Arsenal has also hedged approximately 130 bbl/d of oil at \$84.01/bbl for 2011.

A \$12.6 million equity raise in Q1 2010 helped to reduce net debt to \$20.3 million at quarter end or approximately 1X Arsenal's annualized first quarter cash flow. Arsenal has renegotiated the terms of its credit facility with its lender. The authorized credit limit has been increased from \$31 million to \$40 million.

Operations

Arsenal drilled 3 gross oil wells in Evi, Alberta during the first quarter. Combined with the 3 gross oil wells drilled in Q4 of 2009, Arsenal has increased production at Evi from approximately 240bbls/d (120 net) in October to approximately 600 bbls/d (300 net) currently. During the winter, Arsenal acquired an additional 40 sq km of 3D seismic, an additional 6 sections of net land, and increased its drilling inventory to 12 locations.

At Galahad Alberta, Arsenal has constructed a pipeline across the Battle River to tie in two wells drilled in 2008. A small amount of gas was produced in Q1. With the completion of additional facilities currently under construction, oil production of approximately 50 bbls/d will come online.

In North Dakota during the first quarter two (0.49 net) Bakken wells were spud at Stanley and a Three Forks well (.34 net) was spud at Lindahl. All three wells had encouraging drilling shows and have been cased. Test results will be released as soon as they are available. All three wells should be on production by June.

Operating costs averaged \$19.03/boe in the first quarter. Bakken wells have operating costs under \$3/bbl. As Arsenal's proportion of Bakken production increases with time, operating costs should average down.

Outlook

Arsenal plans to drill an additional 7 (2.5 net) Bakken and/or Three Forks wells in 2010. In addition, Arsenal plans to drill approximately 10 wells in its core heavy/medium Mannville oil properties and will drill four locations at Evi by the end of the year.

Capital expenditures are currently estimated at \$35 million for 2010. Production is expected to average approximately 2500 boe/d and to reach 3000 boe/d by yearend. Based on the current forward strip, Arsenal anticipates that it will achieve operating margins of approximately \$33/boe in 2010 and funds from operations before interest and overhead of approximately \$29 million.

Arsenal has begun an active land acquisition program on a number of new oil and gas plays for which the new horizontal multi stage technology is applicable. Arsenal expects to test some of the oil plays in 2010. Arsenal plans to accumulate land positions on the gas plays, but not drill them until gas prices improve.

Advisory

All barrels of oil equivalent (boe) conversions in this report are deprived by converting natural gas to oil at the ratio of six thousand cubic feet (Mcf) of natural gas to one barrel (bbl) of oil. Certain financial values are presented on a boe basis and such measurements may not be consistent with those used by other companies. Boe amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf: 1 bbl) and is based on an energy equivalency conversion method applicable at the burner tip and does not represent a value equivalency at the wellhead.

Certain financial measures referred to in this release, such as funds from operations and funds from operations per share, are not prescribed by generally accepted accounting principles (GAAP). Funds from operations is a key measure that demonstrates the ability to generate cash to fund expenditures. Funds from operations is calculated by taking the cash provided by operations from the consolidated statement of cash flows and adding back changes in non-cash working capital. Funds from operations per share is calculated using the same methodology for determining net income per share. These non-GAAP financial measures may not be comparable to similar measures presented by other companies. These financial measures are not intended to represent operating profits for the period nor should they be viewed as an alternative to cash provided by operating activities, net income or other measures of financial performance calculated in accordance with GAAP.

Management uses certain industry benchmarks such as field netback to analyze financial and operating performance. Field netback has been calculated by taking oil and gas revenue less royalties, operating costs and transportation costs. This benchmark does not have a standardized meaning prescribed by GAAP and may not be comparable to

similar measures presented by other companies. Management considers field netback as an important measure to demonstrate profitability relative to commodity prices.

Certain statements and information contained in this press release, including but not limited to management's assessment of Arsenal's future plans and operations, production, reserves, revenue, commodity prices, operating and administrative expenditures, funds from operations, capital expenditure programs and debt levels contain forward-looking statements. All statements other than statements of historical fact may be forward looking statements. These statements, by their nature, are subject to numerous risks and uncertainties, some of which are beyond Arsenal's control including the effect of general economic conditions, industry conditions, changes in regulatory and taxation regimes, volatility of commodity prices, escalation of operating and capital costs, currency fluctuations, the availability of services, imprecision of reserve estimates, geological, technical, drilling and processing problems, environmental risks, weather, the lack of availability of qualified personnel or management, stock market volatility, the ability to access sufficient capital from internal and external sources and competition from other industry participants for, among other things, capital, services, acquisitions of reserves, undeveloped lands and skilled personnel that may cause actual results or events to differ materially from those anticipated in the forward looking statements. Such forward-looking statements although considered reasonable by management at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made and should not unduly be relied on. These statements speak only as of the date of this press release. Arsenal does not intend and does not assume any obligation to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. Arsenal's business is subject to various risks that are discussed in its filings on the System for Electronic Document Analysis and Retrieval (SEDAR).

Arsenal Energy Inc.
1900, 639-5th Avenue SW
Calgary, Alberta T2P 0M9
Phone: (403) 262-4854
Fax: (403) 265-6877
Email: info@arsenalenergy.com