

# **ARSENAL ENERGY INC.**

## **(TSX – AEI)**

### **Arsenal Energy Releases 2009 Results**

**CALGARY – March 17, 2010** – Arsenal Energy Inc. (“**Arsenal**”) (TSX: AEI) is pleased to release a summary of its Q4 and full year financial statements. Arsenal’s prime objectives for 2009 were to reduce debt and to prove up reserves in the Bakken of North Dakota. Debt was reduced from \$48.5 million at yearend 2008 to \$28.7 million at yearend 2009. An equity raise in Q1 2010 has reduced this further to approximately \$17 million or approximately 0.7X estimated 2010 cash flow. Arsenal participated in four Bakken drills during 2010 and booked 2.2 million boes of additional proven reserves at yearend. Full details are contained in the Statement of Reserve Data and Other Oil and Gas Information, Financial statements, MD&A, and AIF filed on SEDAR and on the Company’s website.

#### **Financial**

Arsenal had funds from operations of \$18.7 million for the year. Cash flow during 2009 was lower than 2008 due to lower commodity prices partially offset by hedging gains. During the fourth quarter cash flow was \$3.5 million. Net loss for the year was \$11.1 million.

Cash capital expenditures for 2009 were \$10.5 million. Surplus cash flow of \$8.2 million was applied to reduce debt. Noncore property sales (net of acquisitions) of \$3.6 million and equity proceeds of \$8.3 million were also applied to debt reduction. In March 2009 Arsenal transferred \$12.6 million of \$Cdn debt into \$US denominated debt. By yearend Arsenal had an unrealized \$2.1 million foreign exchange gain on the transfer. Including all initiatives, total debt was reduced from \$48.5 million at the beginning of 2009 to \$28.7 million at yearend.

<b>FINANCIAL AND OPERATIONAL RESULTS</b>				
	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
<b>FINANCIAL</b>				
Oil and gas revenue	11,043,957	10,787,435	37,904,565	54,633,318
Funds from operations <sup>1</sup>	3,471,910	11,316,461	18,706,728	31,290,767
Per share - basic and diluted	0.03	0.12	0.18	0.35
Net income (loss)	(2,845,384)	6,974,863	(11,050,516)	14,589,177
Per share - basic and diluted	(0.03)	0.08	(0.11)	0.16
Total debt	28,739,421	48,479,097	28,739,421	48,479,097
Capital expenditures	3,491,484	4,126,121	10,471,357	21,236,860
Property acquisitions	479,084	(246,721)	479,084	728,012
Property dispositions	(634,095)	(1,628,207)	(4,121,234)	(2,863,999)
Corporate acquisitions (cash and shares)	-	38,870,681	-	38,870,681
Wells drilled (net)				
Oil	1.50	2.35	2.51	13.70
Gas	-	-	-	-
Dry	1.25	3.00	1.25	5.00
Shares outstanding - end of period	120,461,890	101,249,646	120,461,890	101,249,646
Trading range				
High	0.74	0.53	0.74	0.98
Low	0.35	0.13	0.11	0.13
Close	0.70	0.21	0.70	0.21
Average daily volume	325,046	222,986	223,602	185,805
<b>OPERATIONAL</b>				
<b>Daily production</b>				
Heavy oil (bbl/d)	721	662	754	646
Light oil and NGLs (bbl/d)	905	1,187	849	913
Natural gas (mcf/d)	1,804	4,003	3,235	2,525
Oil equivalent (boe @ 6:1) <sup>2</sup>	1,927	2,516	2,142	1,980
<b>Realized commodity prices (\$Cdn.)</b>				
Heavy oil (bbl)	65.65	46.85	55.20	75.65
Light oil and NGLs (bbl)	71.12	49.72	58.16	87.94
Natural gas (mcf)	4.62	6.81	3.97	7.98
Oil equivalent (boe @ 6:1)	62.31	46.61	48.48	75.39
<b>Reference pricing</b>				
WTI Cushing, Oklahoma (\$U.S./bbl)	75.94	58.35	61.63	99.59
Hardisty Bow River 24.9 API (\$Cdn./bbl)	68.29	48.89	59.71	83.85
AECO (daily spot) (\$Cdn./mcf)	4.57	6.73	3.99	8.15
Foreign exchange (\$U.S./\$Cdn.)	1.06	1.21	1.14	1.07
<b>Operating netback (\$ per boe)</b>				
Revenue	62.31	46.61	48.48	75.39
Royalty	(13.81)	(9.43)	(9.91)	(15.03)
Operating cost	(19.37)	(22.90)	(17.50)	(21.54)
Transportation cost	(2.54)	(0.27)	(1.39)	(0.21)
Operating netback per boe	26.58	14.02	19.68	38.61

(1)"Funds from operations", "funds from operations per share", "netbacks" and "netbacks per boe" are not defined by Generally Accepted Accounting Principles ("GAAP") in Canada and are regarded as non-GAAP measures. Funds from operations and funds from operations per share are calculated as cash provided by operating activities before changes in non-cash working capital and asset retirement expenditures. Funds from operations is used to analyze the Company's operating performance, the ability of the business to generate the cash flow necessary to fund future growth through capital investment and to repay debt. Funds from operations does not have a standardized measure prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other companies. The Company also presents funds from operation per share whereby per share amounts are calculated using the weighted average number of common shares outstanding consistent with the calculation of net income or loss per share.

(2) The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet per barrel (6 mcf/bbl) of natural gas to barrels of oil equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in the report are derived from converting gas to oil in the ratio mix of six thousand cubic feet of gas to one barrel of oil.

## **Operations**

Average production of 2,142 boe/d was an increase of 162 boe/d from 2008. This increase is attributable to the acquisition of GEOCAN Energy that closed on October 8, 2008 as well as new Bakken drills, offset by natural declines and noncore property sales. Arsenal's Q4 production mix was 84% oil and liquids and 16% natural gas.

Operating costs decreased to \$17.50/boe in 2009 from \$21.54/boe in 2008. This decrease is due primarily to the averaging in of lower cost newly developed Bakken production and the sale of noncore high cost production.

Arsenal participated in four Bakken wells in North Dakota and proved up Arsenal's entire Bakken acreage position at Stanley allowing the booking of 2.2 million net proved barrels of reserves. On a company wide basis, Arsenal replaced 137% of P+P reserves sold and produced, increased the proved portion of P+P reserves from 61% to 65%, and increased oil weighting from 70% to 85% of P+P reserves. At December 31 2009, Arsenal's P+P 10% DNAV (fully diluted) increased to \$1.40/share from \$1.19/share at yearend 2008.

## **Outlook**

Arsenal has received notices for 2 new Bakken drills at Stanley. The first well (Arsenal 14% WI) is operated by EOG and spud on February 22, 2010. The second well (Arsenal 35% WI) spud on March 14, 2010 and will be operated by Murex. The wells offset an Arsenal well drilled in November 2008 that had an initial production of 1,200 bbls/d and that is still producing at over 200 bbls/d after a full year. Arsenal plans to drill its first two operated wells in Stanley commencing in June, 2010.

The Three Forks formation directly underlies the Bakken formation in North Dakota. It is in the delineation stage that the Bakken in North Dakota was in approximately 2 years ago. Arsenal has received 2 drill notices from Continental Resources for new wells at Lindahl, North Dakota targeting the Three Forks formation. A directly offsetting Three Forks well drilled last year by a competitor had an initial production of 1,400 bbls/d and is still producing at 400 bbls/d after 8 months. The first well (Arsenal 34.4% WI) is scheduled to spud on March 28, 2010. The second well (Arsenal 12.5% WI) is scheduled to spud April 20th. Arsenal's NAV includes minimal value for the Three Forks.

Arsenal also has a land position in the Black Slough area of North Dakota where industry activity is picking up and has begun an active land acquisition program on a proprietary resource play mapped in Alberta.

Based on the current forward strip, Arsenal anticipates that it will achieve operating margins in excess of \$30/boe in 2010 on average production of approximately 2500 boe/d. Capital expenditures are currently estimated at \$35 million for 2010. This is expected to yield funds from operations before interest and overhead of approximately \$29 million. With current debt of approximately \$17 million, Arsenal's debt to cash flow ratio is well below management's corporate target of 1:1. Arsenal anticipates that its exit 2010 production will be 3,000 boe/d.

Arsenal's credit facility of \$31 million will be re-negotiated later this spring. It is anticipated that the line will be increased. Results of those negotiations will be released as soon as they are concluded.

Arsenal has filed its Annual Information Form for the year ended December 31, 2009 as mandated by National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators. A copy of Arsenal's Annual Information Form can be obtained on the System for Electronic Document Analysis and Retrieval website at [www.sedar.com](http://www.sedar.com) or by contacting Arsenal.

### **Advisory**

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 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 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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