Arsenal Energy Inc. Releases Yearend Results

CALGARY, March 22, 2011- Arsenal Energy Inc. (TSX: AEI)

Arsenal is pleased to release its Q4 and full year 2010 financial results and yearend 2010 reserve report. Q4 results are highlighted by a 47% increase in cash flow vs. Q409 due to increases in production and reductions in unit costs. Proven plus probable reserves grew 20% from 8.6 million boe to 10.4 million boe for an all in FD&A cost of $10.13/boe. Most of the added reserves are high quality, low cost Bakken oil reserves in North Dakota.

Financial

Cash flow from operations in the fourth quarter was $5.1 million ($0.04/share). This is an increase of 47% vs. the comparable period in 2009. The increase is due to a 14% increase in production volumes, a 20% decrease in unit operating, transportation, and royalty costs, and a 48% decrease in unit overhead and financing charges. These improvements were partially offset by lower unit revenue due to lower price realizations for natural gas. Annual cash flow of $18.3 million was flat year over year but 2009 included $9.2 million in hedge realizations vs. $1.8 million in 2010. Net income for the quarter was nil but continues the quarterly trend toward profitability.

Capital expenditures for Q4 2010 totaled $13.0 million increasing 272% over the $3.5 million expended in Q4 2009. Total debt at yearend was $18.8 million. A subsequent $20 million net equity raise in the first quarter has left the company essentially debt free.

Operations

Average production of 2132 boe/d for Q4 was an increase of 14% from Q4 2009. This increase is attributable to growing production volumes from the Bakken in North Dakota partially offset by noncore property sales.

Arsenal's Q4 production mix was 76% oil and liquids and 24% natural gas. Lower natural gas prices resulted in 8% lower overall boe prices vs. 2009 but operating netbacks of $29.28/boe were slightly higher due to lower operating costs and royalties. Operating costs decreased to $16.98/boe in Q4 2010 from $19.94/boe in 2009. This decrease is due to the averaging in of lower cost Bakken production and the sale of noncore high cost production. Operating margins should continue to improve as additional Bakken production is brought on.

Arsenal participated in the drilling of 10.2 net wells in the fourth quarter. Results of those wells have been previously released. Due to a severe shortage of equipment and trained people in North Dakota, Arsenal's production growth has been slower than anticipated. Although frustrating, these problems are common in booms like North Dakota and Arsenal anticipates that they will work themselves out over the medium term.

SUMMARY OF FINANCIAL AND OPERATIONAL RESULTS						
	Three Months Ended December 31			Year Ended December 31		
	2010	2009	% Change	**2010**	2009	% Change
FINANCIAL						
Oil and gas revenue	**11,250,143**	10,759,516	**5**	**43,665,720**	36,941,862	**18**
Cash provided by operation activities	**5,490,041**	4,012,924	**37**	**13,168,825**	18,102,343	**(27)**
Funds from operations[1]	**5,119,249**	3,471,910	**47**	**18,295,623**	18,706,728	**(2)**
Per share - basic	**0.04**	0.03	**9**	**0.14**	0.18	**(24)**
-diluted	**0.04**	0.03	**6**	**0.13**	0.18	**(25)**
Net loss	**(233,679)**	(2,845,384)	**(92)**	**(7,675,077)**	(11,050,516)	**(31)**
Per share - basic	**-**	(0.03)	**-**	**(0.06)**	(0.11)	**(46)**
-diluted	**-**	(0.03)	**-**	**(0.06)**	(0.11)	**(46)**
Total debt	**18,787,775**	28,739,421	**(35)**	**18,787,775**	28,739,421	**(35)**
Capital expenditures	**12,989,217**	3,491,484	**272**	**28,042,311**	10,471,357	**168**
Property acquisitions	**2,184,049**	479,084	**356**	**2,259,529**	479,084	**372**
Property dispositions	**-**	(634,095)	**-**	**(5,919,077)**	(4,121,234)	**44**
Wells drilled (net)						
Oil	**4.83**	1.50	**222**	**7.11**	2.51	**183**
Gas	**1.00**	-	**-**	**1.00**	-	**-**
Drilling at year end	**1.40**	-	**-**	**1.40**	-	**-**
Dry	**3.00**	1.25	**140**	**3.00**	1.25	**140**
Total net wells drilled	**10.23**	2.75	**272**	**12.51**	3.76	**233**
Shares outstanding - end of year	**140,812,472**	120,461,890	**17**	**140,812,472**	120,461,890	**17**
OPERATIONAL						
Daily production						
Heavy oil (bbl/d)	**556**	721	**(23)**	**603**	754	**(20)**
Light oil and NGLs (bbl/d)	**1,055**	851	**24**	**985**	792	**24**
Natural gas (mcf/d)	**3,131**	1,804	**74**	**3,032**	3,235	**(6)**
Oil equivalent (boe @ 6:1)[2]	**2,132**	1,872	**14**	**2,093**	2,085	**0**
Realized commodity prices ($Cdn.)						
Heavy oil (bbl)	**66.81**	65.65	**2**	**64.48**	55.20	**17**
Light oil and NGLs (bbl)	**71.17**	72.06	**(1)**	**69.99**	59.02	**19**
Natural gas (mcf)	**3.23**	4.62	**(30)**	**3.91**	3.97	**(2)**
Oil equivalent (boe @ 6:1)	**57.36**	62.48	**(8)**	**57.17**	48.54	**18**
Operating netback ($ per boe)						
Revenue	**57.36**	62.48	**(8)**	**57.17**	48.54	**18**
Royalty	**(9.95)**	(12.57)	**(21)**	**(10.25)**	(8.91)	**15**
Operating cost	**(16.98)**	(19.94)	**(15)**	**(18.38)**	(17.98)	**2**
Transportation cost	**(1.15)**	(2.62)	**(56)**	**(1.07)**	(1.42)	**(25)**
Operating netback per boe	**29.28**	27.36	**7**	**27.46**	20.22	**36**
General and administrative	**(3.57)**	(6.23)	**(43)**	**(4.61)**	(4.63)	**(0)**
Finance charges and fees	**(0.83)**	(2.22)	**(63)**	**(1.34)**	(2.09)	**(36)**
Other	**(0.14)**	0.16	**(189)**	**0.09**	(1.02)	**(109)**
Realized hedging gains (losses)	**1.36**	1.09	**25**	**2.34**	12.10	**(81)**
Cash flow per Boe	**26.10**	**20.16**	**29**	**23.95**	**24.58**	**(3)**

(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.

Reserves Summary

Reserves as at December 31, 2010, 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 51-1-1 F1 – *Statements of Reserves Data and Other Oil and Gas Information* is filed in Arsenal's Annual Information Form on SEDAR – "www.SEDAR.com

The following tables summarize certain information related to Arsenal's oil and gas reserves as of December 31, 2010 based on forecast price and cost assumptions:

	Light / Medium Oil		Heavy Oil		Natural Gas Liquids		Natural Gas		Barrels of Oil Equivalent [3]	
	Gross (Mbbl)[1]	Net (Mbbl)[2]	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)	Gross (MMcf)	Net (MMcf)	Gross (MBOE)	Net (MBOE)
Proved Producing	2289	1862	187	169	143	110	3774	3126	3247	2663
Proved Non Producing	172	145	30	27	5	3	722	605	326	277
Proved Undeveloped	3545	2729	19	17	16	13	392	312	3645	2810
Total Proved	6006	4736	235	214	163	126	4887	4043	7219	5750
Probable	2474	1956	371	322	58	45	2066	1699	3248	2606
Total Proved + Probable	8480	6692	606	535	221	172	6954	5741	10466	8355

Reserves Values

The estimated future net revenues before taxes associated with Arsenal's reserves effective December 31, 2010 and based on the AJM future price forecast are summarized in the following table:

	0 % DCF (MM$ Cdn)	5 % DCF (MM$ Cdn)	10 % DCF (MM$ Cdn)	15 % DCF (MM$ Cdn)
Proved Producing	117	82	65	55
Proved Non Producing	14	9	7	6
Proved Undeveloped	215	112	71	49
Total Proved	346	203	143	110
Probable	243	101	58	39
Total Proved + Probable	589	304	201	150

Price Forecast

AJM employed the following pricing, exchange rate, and inflation rate assumptions in estimating Arsenal's reserve data as of December 31, 2010:

Year Forecast	WTI Cushing Oklahoma ($US/Bbl)	Edmonton Par Price 40 API ($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)
2011	85.00	82.80	4.10	70.40	86.95	0.00	1.00
2012	89.25	88.80	4.60	75.50	93.25	2.00	0.98
2013	91.55	94.05	5.20	79.95	98.75	2.00	0.95
2014	95.50	98.15	5.50	83.45	103.50	2.00	0.95
2015	102.85	105.80	5.75	89.95	111.10	2.00	0.95
Thereafter	+ 2 %/yr	+ 2 %/yr	+ 2 %/yr	+ 2 %/yr	+ 2 %/yr	2 %/yr	0.95

Year End Reconciliation

	Open Dec.31, 2009	Acquired /Sold	Production [4]	Activity Adds	Revisions	Close Dec. 31, 2010
TP (MBOE)	5,618	392	(764)	765	1,208	7,219
TP Value (10% DNAV MM$ Cdn)	132	-4	-21	14	22	143
P+P (MBOE)	8,662	371	(764)	1,078	1,119	10,466
P+P Value (10% DNAV MM$ Cdn)	202	-4	-21	10	14	201

Based on the Q4 estimated production rate of 2,132 Boe/d, Arsenal has a reserve life of 9.3 years based on total proved and 13.4 years based on proved plus probable reserves.

Reserves Addition Costs

	Reserve Adds (MBOE)	2010 Capex (K$ Cdn)	Change in Future Capex (K$ Cdn)	FD&A Costs ($/BOE)
Total Proved	2,366	24,383 [5]	5,052	12.44
Total Proved + Probable	2,568	24,383	1,637	10.13

On a total proved basis, reserves increased by 1,602 MBoe and reserves per 1 million shares increased by 4,700 Boe (10 %). Additions replaced production by 209%.

On a total proved plus probable basis, reserves increased by 1,804 MBoe and reserves per 1 million shares increased by 2,500 Boe (3.5 %). Additions replaced production by 236%.

Year End Net Asset Value

The following tables summarize certain information related to Arsenal's oil and gas reserves as of December 31, 2010 based on forecast price and cost assumptions:

	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10
P+P PV (10% DNAV MM$)	77.1	87.6	166.4	200.8	201.4
Land (MM$)	1.5	1.5	2.0	2.0	6.4 [6]
Seismic (MM$)	0.3	0.8	0.9	1.0	2.0 [7]
Debt + Working Capital (MM$)	-28.5	-20.7	-41.8	-27.0	-18.8
NAV (MM$)	50.4	69.2	127.5	176.8	191.0
Shares Outstanding (MM)	73.3	83.7	101.6	120.5	140.8 [8]
P+P NAV/Share ($/share)[9]	$ 0.69	$ 0.83	$ 1.25	$ 1.47	$ 1.36

Notes:

1) "Company Gross" reserves means AEI working interest (operated and non-op) share before deduction of royalties and excluding any royalty interest.
2) "Net" reserves means AEI working interest (operated and non-op) after deduction of royalties, plus AEI 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) 64 thousand net acres of undeveloped land at $100/acre
7) 200 km2 of proprietary seismic at $10,000/km2
8) Undiluted
9) Unaudited

Outlook

Arsenal has five priorities for 2011. The first priority is to bring more of its Stanley, North Dakota Bakken reserves into production. At January 1st Arsenal had an inventory of 10 budgeted gross (4.7 net) proven non producing locations on 640 acre spacing. Three have now been drilled with one on production. A fourth is currently drilling. Arsenal has a drilling rig for the program and is working to secure a frac crew. The first year average production rate to date at Stanley has been 260 bbls/d/well with initial rates much higher.

The second priority for 2011 is to advance Arsenal's Bakken/Three Forks depletion plan. Arsenal's independent engineers (AJM) have booked the Bakken/Three Forks complex on one well per spacing unit with an 8% recovery factor for proven and two wells per spacing unit with a 12% recovery factor for proven plus probable. Arsenal has simulated the reservoirs and designed an optimal depletion plan. The plan calls for four wells per 1280 acre spacing unit and three wells per 640 acre spacing unit with a total recovery factor of 16%. AJM has evaluated this plan and has booked as possible reserves an additional 4 million barrels with an incremental NPV of $75 million. Beyond that, further increases in recovery may be attainable through water or gas injection. This plan is consistent with other area operators.

The third priority is to advance Bakken development at Rennie Lake in Burke County where Arsenal has 2500 net acres of undeveloped Bakken rights. Successful wells have been drilled surrounding Arsenal's lands. Arsenal currently has no production or booked reserves on its Rennie Lake property.

The fourth priority is the establishment of a new core oil property. Arsenal has three play concepts that will be tested in the second quarter. At Edgerton, Alberta, Arsenal has recently shot a 3D seismic program and identified a large Leduc subcrop structure. At Princess, Alberta, Arsenal is installing high volume lift to test the productive capability of its 5 Detrital formation wells. Also at Princess, Arsenal plans to drill a horizontal well into the Glauconitic formation to test the capability of multi fracturing to increase production. Each of these has the potential to prove up material oil development opportunities for Arsenal going forward. In addition, Arsenal is essentially debt free and evaluating potential acquisitions using an undrawn $40 million borrowing base.

The fifth priority is continued land acquisition in the Alberta deep basin Falher formation play. Arsenal is acquiring acreage at relatively low prices and is looking forward to a time when higher gas prices will make the development of this play attractive. Arsenal has acquired 15,000 net acres in this play to date.

Based on the current forward strip, Arsenal anticipates that it will achieve operating margins in excess of $37/boe in 2011. Arsenal anticipates an exit production rate of 3000boe/d. Capital expenditures are currently estimated at $54 million for 2011. This is expected to yield funds from operations before interest and overhead of approximately $37 million and cash flow of $30 million.

Arsenal has filed its Annual Information Form which contains Arsenal's reserves data and other oil and gas information for the year ended December 31, 2010 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 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).

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