



Arsenal Energy Inc.

Arsenal Energy Inc. Announces Strategic Acquisition in it's core oil-producing areas of Alberta

CALGARY, Oct 26, 2011- Arsenal Energy Inc. (TSX: AEI) (PNK: AEYIF.PK)

Arsenal Energy Inc. ("**Arsenal**") is pleased to announce that it has entered into an agreement to purchase certain producing properties (the "**Acquired Properties**") for a total consideration of \$40.25 million (the "**Acquisition**"). The Acquisition is consistent with Arsenal's strategy of acquiring low decline water flood projects in eastern Alberta for reserve growth in the medium term, and acquiring very low cost reserves, land, and infrastructure in long life gas plays for the long term.

The Acquired Properties are currently producing approximately 1,500 boe/d (50% liquids) and include 1.8 million boe of proved and 2.5 million boe of proved plus probable reserves.

The Acquired Properties strategically fit in Arsenal's eastern Alberta core operating areas. Upon completion of the Acquisition, Arsenal's production from its Princess/Provost areas will increase from approximately 920 boe/d to approximately 1,850 boe/d. The Acquired Properties produce medium gravity oil, are all operated, and have high working interests. Arsenal has identified a number of additional pools on its heritage lands and on the Acquired Properties which management feel may benefit from water re-injection.

Arsenal is also acquiring 580 boe/d of gas production in the Desan area of NE BC. The Acquired Properties are operated, have a high working interest, and a relatively low decline rate. Arsenal views the Desan purchase as a counter cyclical core gas property acquisition at very low cost.

The Acquisition is scheduled to close November 15th. Arsenal intends to fund the Acquisition entirely with bank debt within its existing credit facility. Pro forma debt at closing is estimated at \$50 million with pro forma annualized cash flow of \$42 million, representing pro forma debt to cash flow of 1.2x. Subject to the closing of the Acquisition, Arsenal anticipates it will exit 2011 at approximately 3,900 boe/d. In conjunction with the Acquisition, Arsenal has hedged 700 bbls/d of oil at a price of \$92.10 CDN/bbl until the end of 2013.

Arsenal's credit facility of \$60 million is currently under review to take into consideration recent drilling activities and to incorporate the Acquisition. Arsenal expects that its borrowing base will be increased to account for the added activity and production. The Acquisition is not expected to affect Arsenal's planned capital development program for the remainder of 2011 and for 2012.

Desjardins Securities Inc. acted as Arsenal's exclusive financial advisor with respect to the Acquisition.

For more information please contact Tony van Winkoop, President and Chief Executive Officer of the Corporation, 1900, 639 – 5th Avenue S.W., Calgary, Alberta, T2P 0M9, by telephone at (403) 262-4854, by fax at (403)-265-6877, by Internet at: www.arsenalenergy.com or by e-mail: info@arsenalenergy.com.

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).

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.