

# ARSENAL ENERGY INC. (TSX – AEI)

## ARSENAL ENERGY RELEASES Q3 RESULTS

**CALGARY, Nov 8, 2011-** Arsenal Energy Inc. (“Arsenal”) (TSX: AEI) is pleased to release its 2011 Q3 results. Arsenal had record quarterly revenue and cash flow. Good production results from two new Bakken wells in North Dakota and a large hedge realization contributed to very strong Q3 cash flow. Looking forward, Arsenal anticipates closing the previously announced acquisition of 1,500 boe/d of production for \$40.25 million on November 15<sup>th</sup>. With the acquisition and additional Bakken production gains in Q4, Arsenal anticipates strong cash flow growth to continue in Q4 and through 2012.

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

<b>SUMMARY OF FINANCIAL AND OPERATIONAL RESULTS</b>						
	<b>Three Months Ended September 30</b>			<b>Nine Months Ended September 30</b>		
	<b>2011</b>	<b>2010</b>	<b>% Change</b>	<b>2011</b>	<b>2010</b>	<b>% Change</b>
<b>FINANCIAL</b>						
Oil and gas revenue	<b>15,027,512</b>	9,701,018	<b>55</b>	<b>39,376,528</b>	32,415,577	<b>21</b>
Cash provided by operating activities	<b>11,378,985</b>	4,020,747	<b>183</b>	<b>22,429,212</b>	5,723,826	<b>292</b>
Funds from operations <sup>1</sup>	<b>11,425,975</b>	3,633,712	<b>214</b>	<b>20,833,377</b>	12,830,553	<b>62</b>
Per share - basic	<b>0.07</b>	0.03	<b>161</b>	<b>0.13</b>	0.10	<b>35</b>
-diluted	<b>0.07</b>	0.03	<b>163</b>	<b>0.13</b>	0.10	<b>35</b>
Net income (loss)	<b>6,433,904</b>	(353,426)	-	<b>1,505,975</b>	152,196	<b>889</b>
Per share - basic	<b>0.04</b>	nil	-	<b>0.01</b>	nil	-
-diluted	<b>0.04</b>	nil	-	<b>0.01</b>	nil	-
Total debt	<b>9,240,010</b>	15,061,052	<b>(39)</b>	<b>9,240,010</b>	15,061,052	<b>(39)</b>
Capital expenditures	<b>8,637,033</b>	3,825,556	<b>126</b>	<b>26,892,524</b>	13,173,616	<b>104</b>
Property dispositions	<b>(23,405)</b>	(5,704,246)	<b>(100)</b>	<b>(621,914)</b>	(5,919,077)	<b>(89)</b>
Wells drilled (net)						
Oil	<b>3.59</b>	0.12	-	<b>4.62</b>	2.28	-
Gas	-	-	-	-	-	-
Dry	<b>1.00</b>	1.00	-	<b>3.00</b>	-	-
Total net wells drilled	<b>4.59</b>	1.12	-	<b>7.62</b>	2.28	-
Shares outstanding - end of period	<b>159,366,062</b>	133,734,472	<b>19</b>	<b>159,366,062</b>	133,734,472	<b>19</b>

<b>OPERATIONAL</b>						
<b>Daily production</b>						
Heavy oil (bbl/d)	512	563	(9)	522	615	(15)
Light oil and NGLs (bbl/d)	1,414	914	55	1,173	964	22
Natural gas (mcf/d)	1,552	3,292	(53)	1,860	2,999	(38)
Oil equivalent (boe @ 6:1) <sup>2</sup>	2,185	2,026	8	2,005	2,079	(4)
<b>Realized commodity prices (\$Cdn.)</b>						
Heavy oil (bbl)	69.38	61.11	14	71.90	63.90	13
Light oil and NGLs (bbl)	85.85	65.86	30	84.86	69.51	22
Natural gas (mcf)	4.13	3.29	26	3.86	4.15	(7)
Oil equivalent (boe @ 6:1)	74.76	52.05	44	71.94	57.12	26
<b>Operating netback (\$ per boe)</b>						
Revenue	74.76	52.05	44	71.94	57.12	26
Royalty	(15.14)	(11.00)	38	(13.93)	(10.35)	35
Operating cost	(16.85)	(17.45)	(3)	(17.57)	(19.48)	(10)
Transportation cost	(2.29)	(1.03)	122	(1.99)	(1.05)	90
<b>Operating netback per boe</b>	<b>40.48</b>	<b>22.57</b>	<b>79</b>	<b>38.45</b>	<b>26.24</b>	<b>47</b>
General and administrative	(4.57)	(5.19)	(12)	(5.89)	(4.94)	19
Finance expenses	(0.51)	(1.30)	(61)	(1.01)	(1.51)	(33)
Other	(0.82)	(0.04)	-	(0.25)	0.14	(279)
Realized hedging gains (losses)	22.26	3.47	542	6.77	2.68	152
<b>Funds flow per Boe</b>	<b>56.85</b>	<b>19.50</b>	<b>192</b>	<b>38.06</b>	<b>22.61</b>	<b>68</b>

## Operations

During the third quarter, Arsenal completed two Bakken wells in North Dakota, the Brenlee (80.15 %WI) and the Amy Elizabeth (62.49 %WI). Both had initial 30 day production rates greater than 500 bbls/d.

Average production of 2185 boe/d during the third quarter was up 8% compared to the third quarter of 2010. Increases from the Bakken resulted in light oil production increasing by 55% vs. 2010 to 1,414 bbls/d. Heavy gravity oil production was relatively flat at 512 bbls/d. Gas production was down 53% year over year due to natural declines and the shut in of marginal production. The shift to more light oil and less gas is responsible for the large increase in revenue and cash flow vs. the same period in 2010.

Operating costs decreased to \$16.85/boe in Q3 2011 compared to \$17.45/boe for the same period in 2010. The decrease is due to the addition of low operating cost Bakken production in North Dakota. Transportation costs increased from \$1.03/boe in Q3 2010 to \$2.29/boe in Q3 2011 due to a pipeline failure at Evi Alberta, which necessitated long distance trucking of sales oil. That pipeline has now been repaired and transportation costs should revert to historical levels.

Arsenal continues to add to its land position in the Bakken/ThreeForks in North Dakota and in the Wilrich play in the deep basin of Alberta. Arsenal has increased its position in the Bakken to 7,873 net acres and to 14,080 net acres in the Wilrich.

## Financial

Funds from operations netback for Q3 2011 totaled \$11.4 million or \$56.85/boe versus \$3.6 million or \$19.50/boe for Q3 2010. During the 3<sup>rd</sup> quarter Arsenal crystallized its hedge book for a one time hedge gain of \$4.4 million. Without the hedging gain, cash flow was \$7.0 million or \$34.59/boe. The large increase in operating margin is due to volume increases of high netback Bakken production. Net income for Q3 was \$6.4 million.

Total debt at quarter end was \$9.2 million or approximately 0.3X Arsenal's anticipated 2011 cash flow of \$30 million.

Pursuant to Arsenal's current issuer bid, Arsenal has purchased and cancelled 2.4 million common shares during the third quarter. Arsenal has purchased and cancelled 4.1 million common shares year to date.

## **Outlook**

On October 26th Arsenal Energy announced that it had agreed, effective September 1, to purchase 1,500 boe/d of production for \$40.25 million. The acquisition consists of 750 bbl/d of oil/ngl production and 4.5 mmcf/d of natural gas production with reserves of 1.8 million boe proved and 2.5 million boe proved plus probable. The acquisition is scheduled to close November 15<sup>th</sup>.

Subsequent to quarter end, Arsenal drilled the Gjoa Lynn (59.3% WI) Bakken well. The Gjoa Lynn is scheduled for completion at the end of November. The drilling rig has been released but is scheduled to return to Arsenal to drill two more Bakken wells; being the Anthony Robert (80.3% WI) and Wade Morris (80.3%) starting in February 2012.

Arsenal has a drilling program planned for eastern Alberta in Q4. One horizontal well in the Leduc is planned at Edgerton, and two horizontals are planned in the Glauconite at Princess. The tests have the potential, if successful, to open up significant development programs.

Volumes should increase materially when the property acquisition closes in mid November and when the Gjoa Lynn well comes on production in December. Arsenal anticipates exiting 2011 at 3,900 boe/d. With the recent strengthening of oil prices and the shrinking of heavy oil differentials, Arsenal's unit revenue should continue to be strong.

To receive company news releases via e-mail, please advise [info@arsenalenergy.com](mailto:info@arsenalenergy.com) and specify "Arsenal Press Releases" in the subject line.

(1) "Funds from operations", "funds from operations per share", "netbacks" and "netbacks per boe" are not defined by International Financial Reporting Standards ("IFRS") in Canada and are regarded as non-IFRS 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 decommissioning obligations settled. 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 IFRS 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.

## **Advisory**

Management uses certain industry benchmarks such as operating netback to analyze financial and operating performance. Operating 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 IFRS and may not be comparable to similar measures presented by other companies. Management considers operating 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, 639-5<sup>th</sup> Avenue SW

Calgary, Alberta T2P 0M9

Phone: (403) 262-4854

Fax: (403) 265-6877

Email: [info@arsenalenergy.com](mailto:info@arsenalenergy.com)