

\*Gjoa Lynn Frac Sand Convoy

# Arsenal Energy Inc.



\*Gjoa Lynn Frac Operation

TSX: AEI

December 2011

## Forward Looking Information

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*This presentation contains forward looking statements relating to financial condition, results, reserves, development, and cash flows among other matters. These forward looking statements are estimates in the best judgment of management of Arsenal Energy Inc. They involve a number of known and unknown risks and uncertainties including but not limited to commodity prices, drilling costs, exploration success rate, interest rate changes and environmental items that could cause actual results to differ materially from those suggested in the statements. Reader is cautioned not to place undue reliance on these forward looking statements which speak only as of the date they were made. Additionally, we do not undertake any obligation to publicly release any revisions to these forward looking statements.*

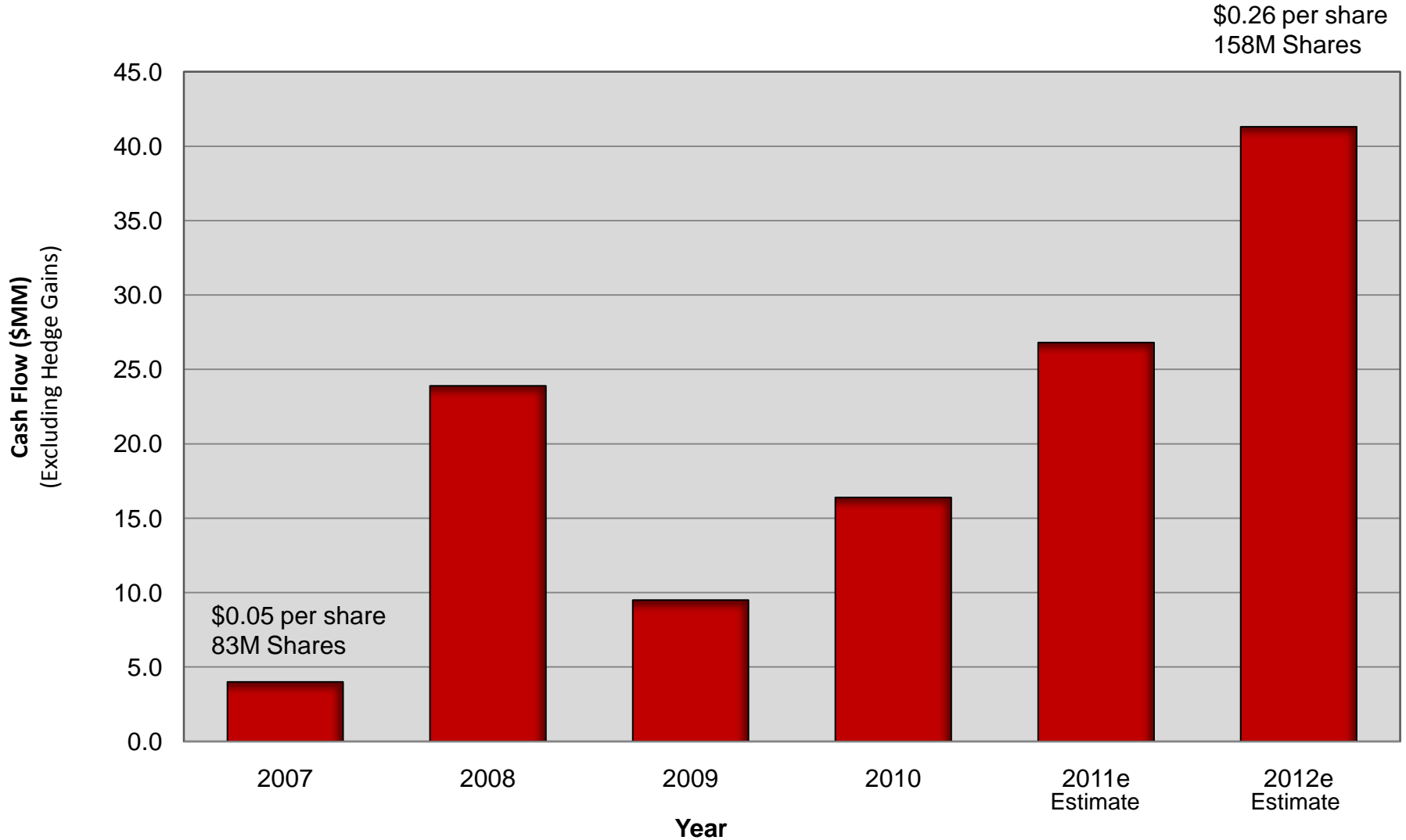


# Arsenal Corporate Information (December 2011)

Investor Summary	
Current production ( Estimated):	3,900 BOE/d
Oil weighting:	72 %
Estimated 2012 Exit Rate	4,500 BOE/d
Shares issued and outstanding:	158 million
Insider ownership (basic):	10 %
Core Focus areas:	SE Alberta Medium gravity oil North Dakota Bakken, ThreeForks Columbia Deep Basin Cardium, Wilrich, Gething
Currently Trading Below its Peer Group Based on Enterprise Value	~ 0.42 X NAVPS ~ \$36,800/BOE/d ~ \$11.06/P+P BOE



# Cash Flow Growth **10X** since 2007 Management Change



# Stable Base + Low Risk Development + High Impact Exploration

## **Eastern Alberta Stable Base**

High operating margins \$35/BOE

Low Decline Rates – 8% base decline rate

Potential for New and Expanded waterfloods

## **Bakken Development in North Dakota**

Multi year inventory in Bakken and Three Forks

Low risk - High return on capital

## **Exploration Plays (100%)**

Edgerton Leduc

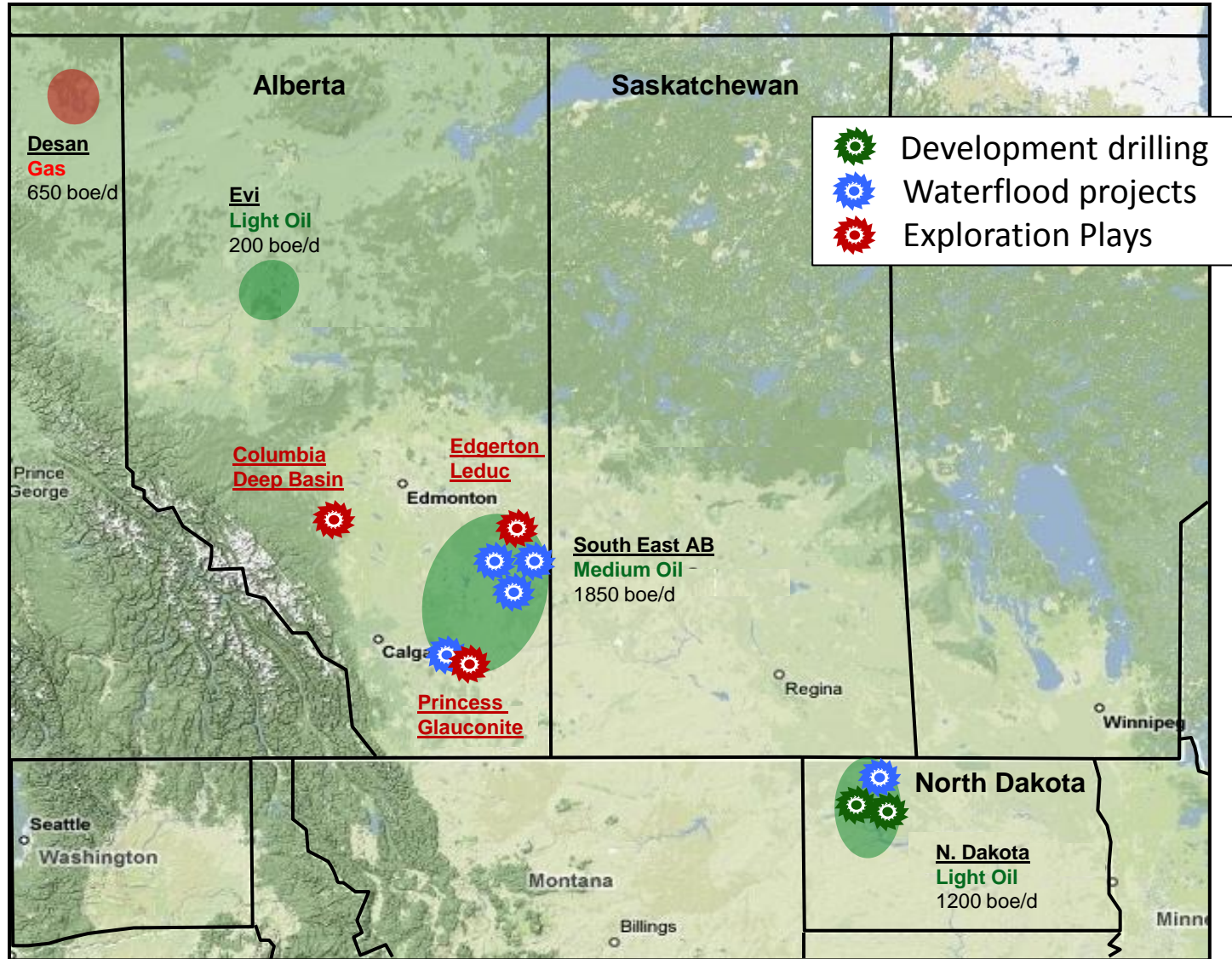
Princess Glaucosite

Columbia deep basin

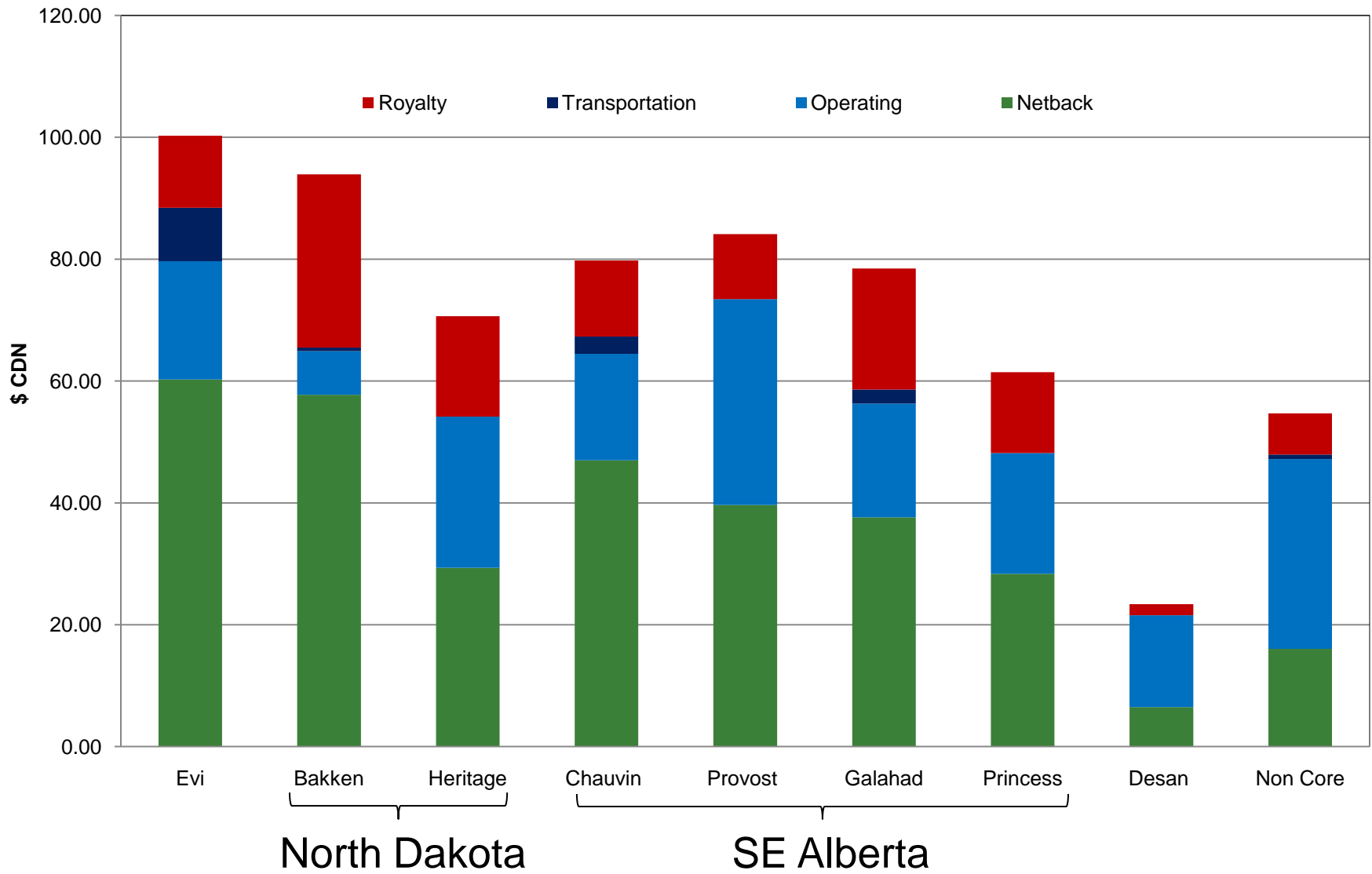
- Wilrich – 23 sections
- Cardium – 17 sections
- Gething – 9 sections



# Core Areas of Operation



# Pro forma Q2 - 2011 Operating Net Backs by Region

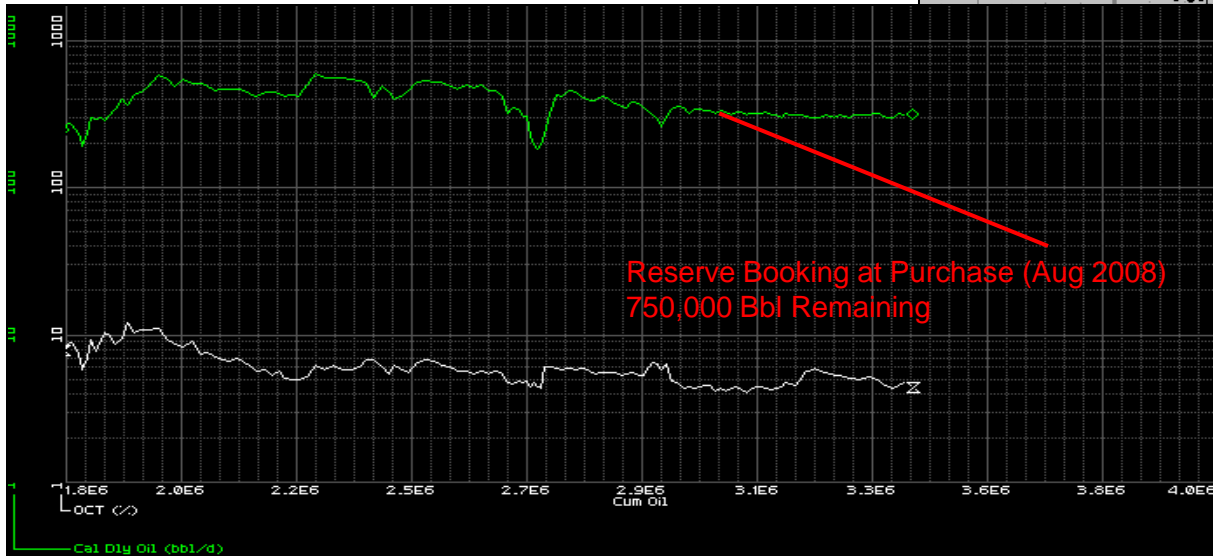
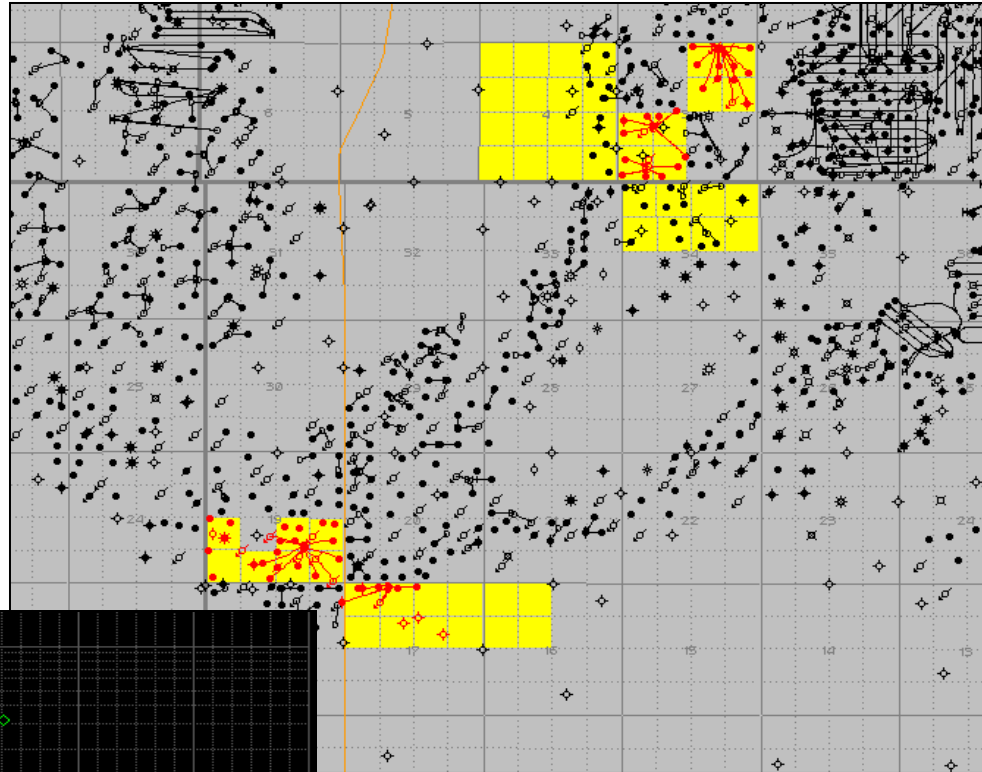


# Base Production SE Alberta Production



# Chauvin Field Purchase and Optimization

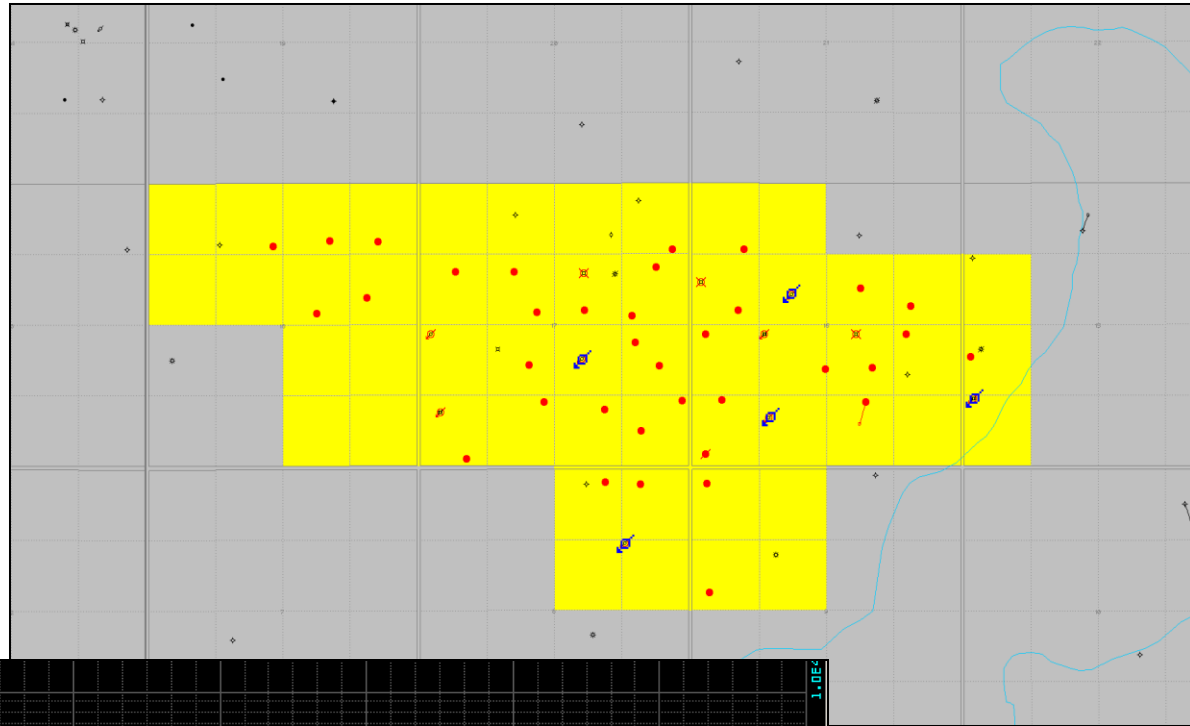
- Arsenal Purchased Chauvin in Aug. 2008
- At time of Purchase 750,000 Bbl Remaining (P+P)
- Minor Capital Investment Program
  - 1 New Injector
  - 1 Well Restart
  - 1 Recompletion
  - 1 Drill



# Provost Cummings Y Pool Water Flood

- At time of 2010 Reserve Booking 807,000 Bbl Remaining (P+P)
- West Side of Pool Not Flooded

Oil Production is Flattening as Water Injection Increases



# Princess: Basal Mannville

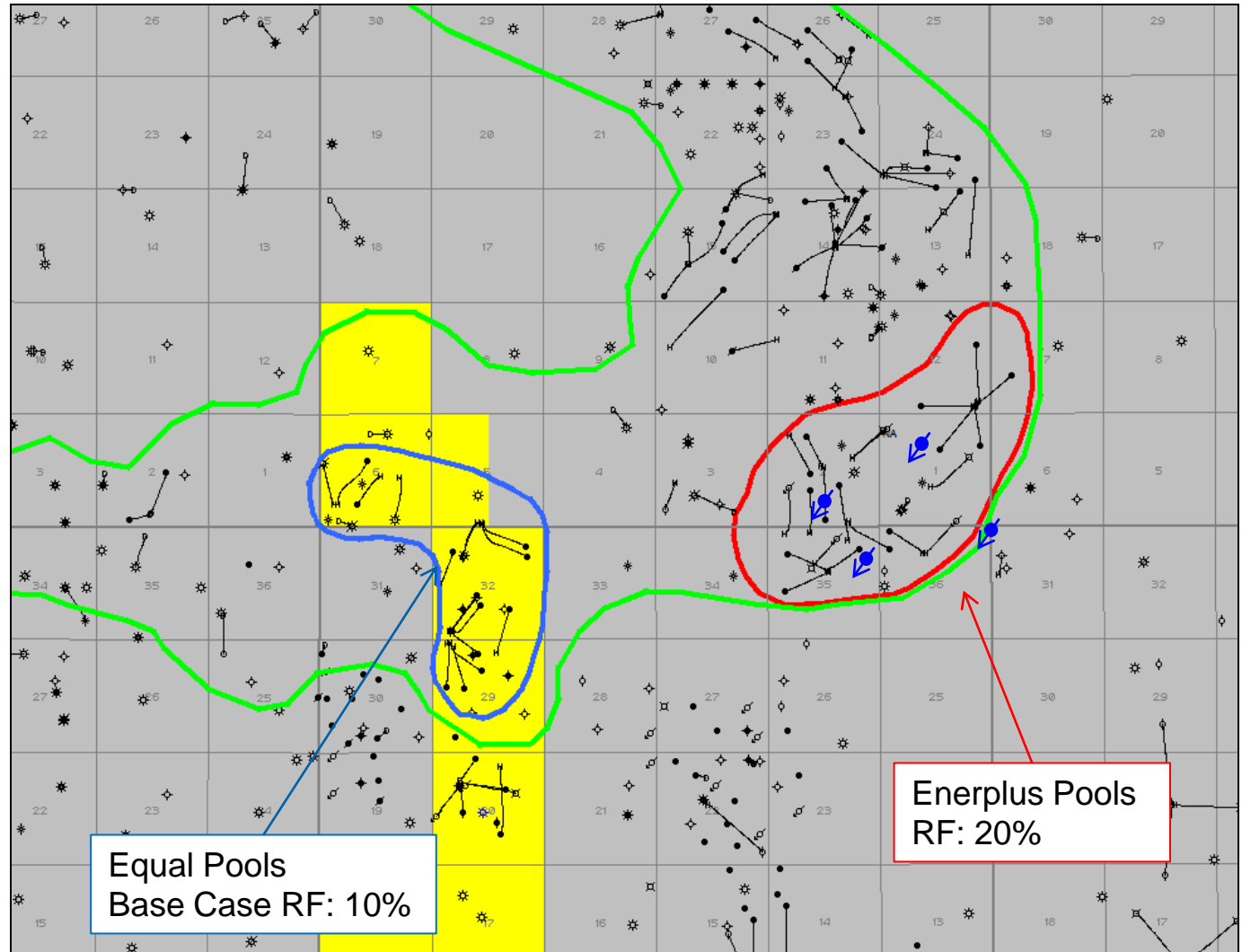
## Basal Mannville

### Base Case:

Production: 142BOE/d  
 Reserves: 305MBOE  
 NPV: \$ 5.9MM

### Upside Case:

Production: 350BOE/d  
 Reserves: 1568MBOE  
 NPV: \$ 18.6MM

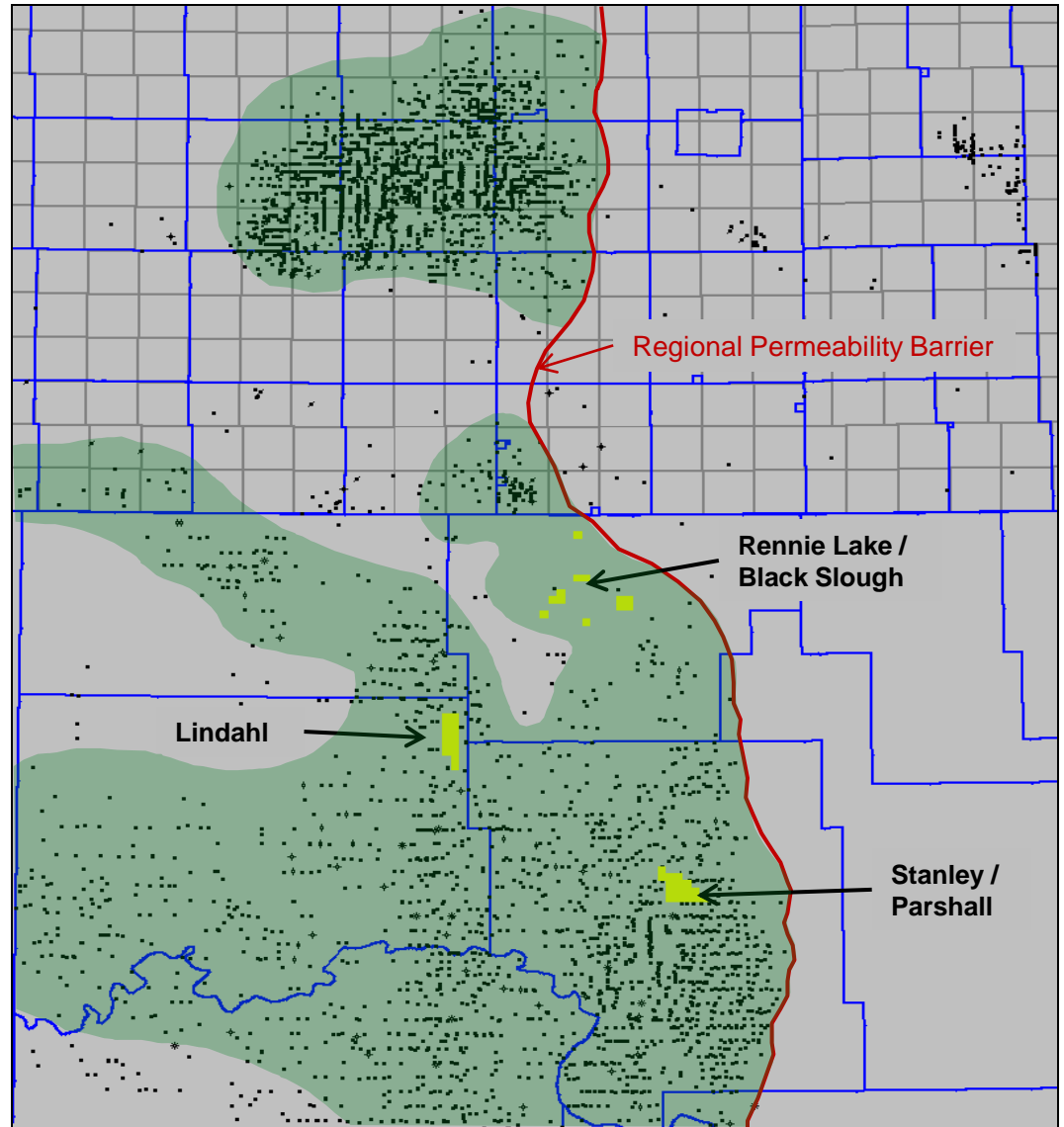


Equal Pools  
 Base Case RF: 10%


Enerplus Pools  
 RF: 20%

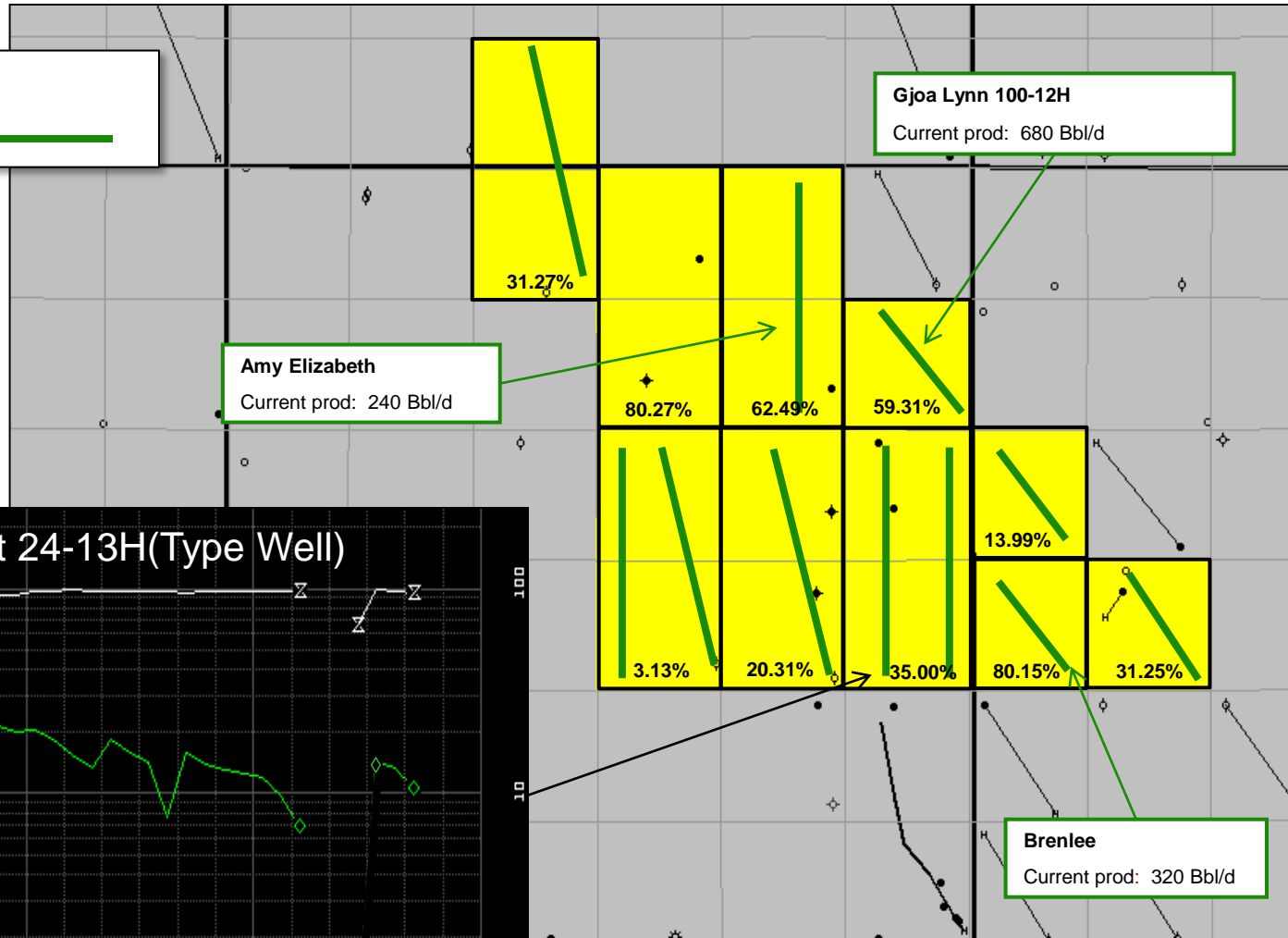
# Arsenal's Bakken / Three Forks Land Position

Area	Net WI (acres)
Stanley	4,159
Lindahl	643
Rennie Lake / Black Slough	2,921
<b>Total:</b>	<b>7,723</b>

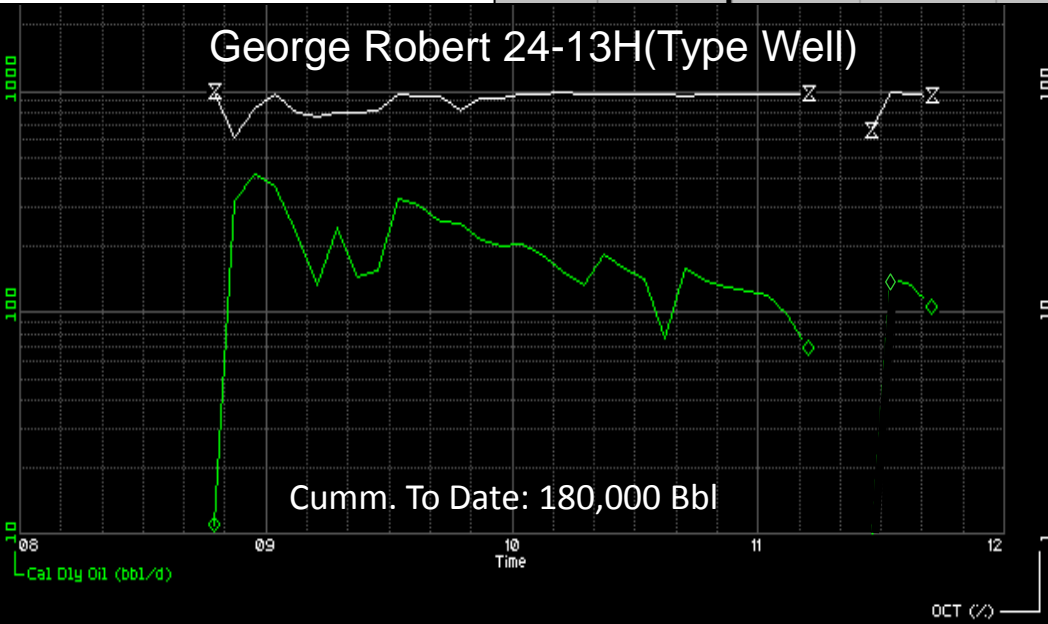


# Stanley, North Dakota – Bakken Production

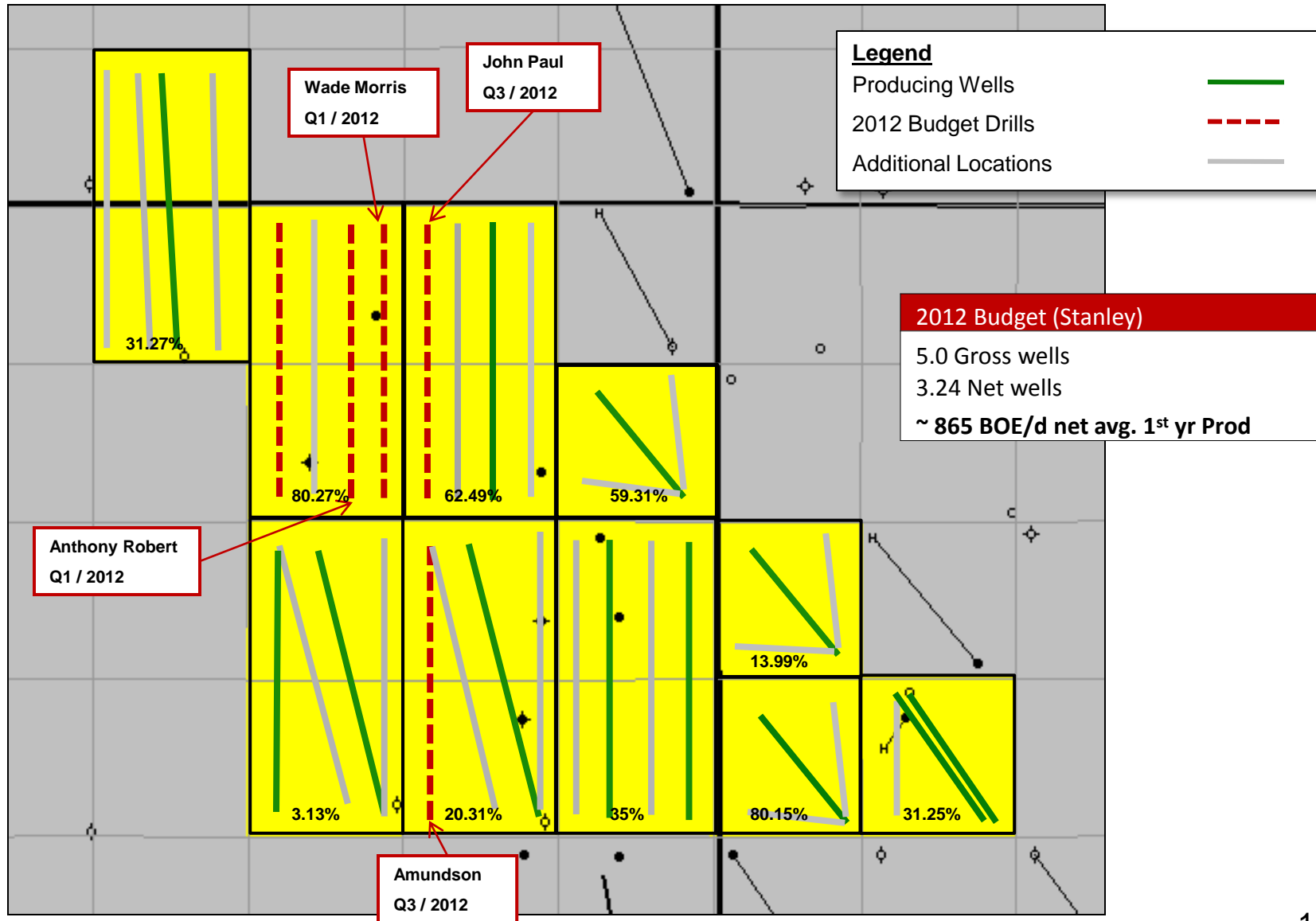
**Legend**  
Producing Wells 



**George Robert 24-13H(Type Well)**



# Stanley, North Dakota – Bakken Resource Development



## Economics Stanley – *Bakken Light Oil*

<b>2 Mile Type Well – 100 % WI / FS Price</b>	<b>Stanley (Bakken)</b>	
<b>Production and Reserve</b>		
Test rate	1100	BOE/d
Initial Production (30 day)	680	BOE/d
Full Year Avg. Production	267	BOE/d
Reserves (Proven)	533	MBOE
<b>Capital</b>		
Drill / Complete / Tie In	10,000	\$K CDN
<b>Metrics (Drill)</b>		
F&D	18.76	\$/BOE
Recycle Ratio	2.75	
<b>Discounted Cash Flow</b>		
BT ROR	26	%
BT NPV10	5,700	K\$ CDN



## Stanley Volumetrics (Bakken / Three Forks)

OOIP: 9.0 MM BOE/section

Arsenal WI Land : 4,159 Acres




Net OOIP: 58 MM BOE

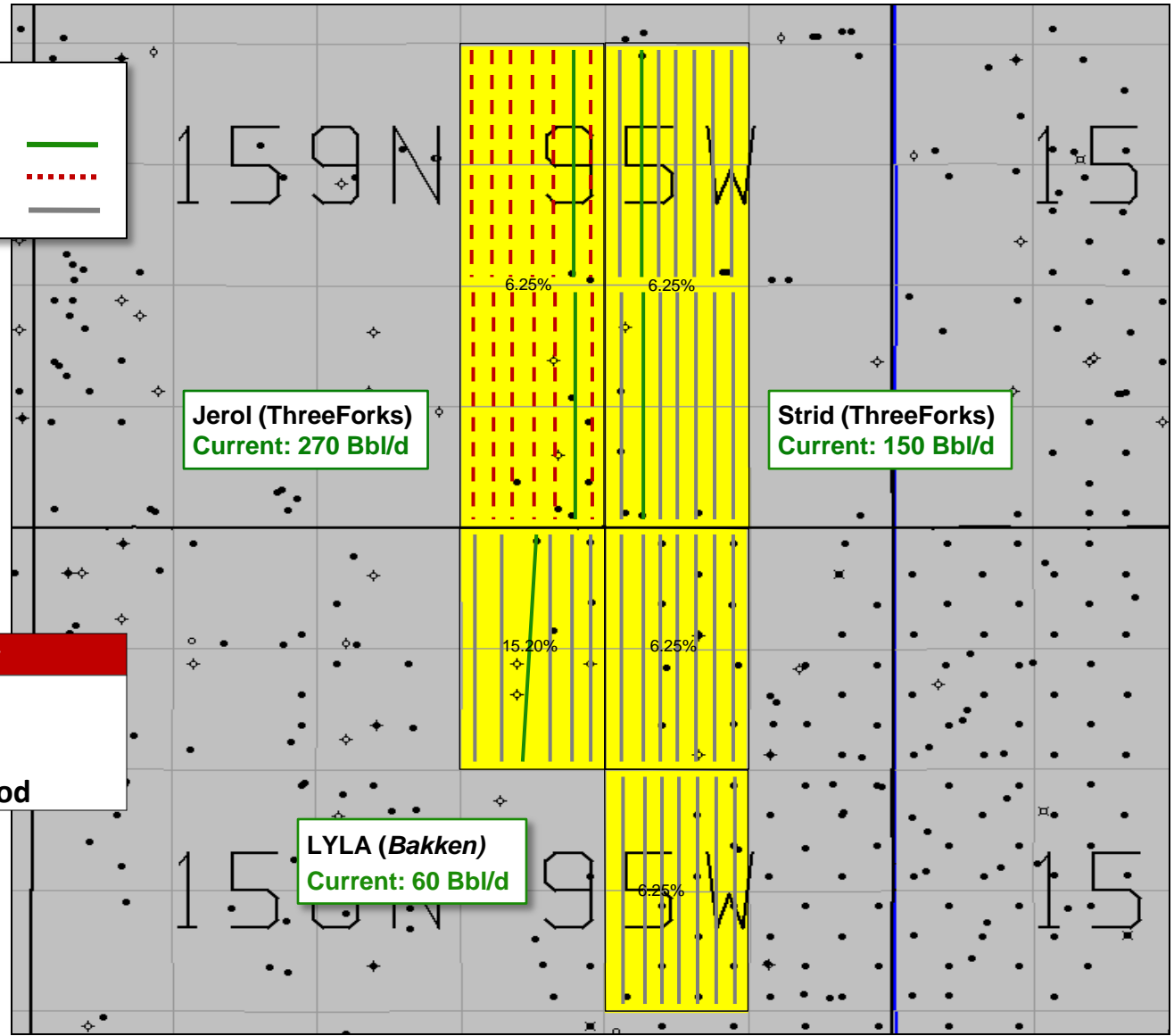
	Reserves Proved	Reserves P+P
AJM Reserves (MMBOE)	3.75	5.37
NPV 10 (\$MM)	80.0	109.3
Implied Recovery Factor	6.5%	9.3%



# Lindahl – Bakken & Three Forks

**Legend**

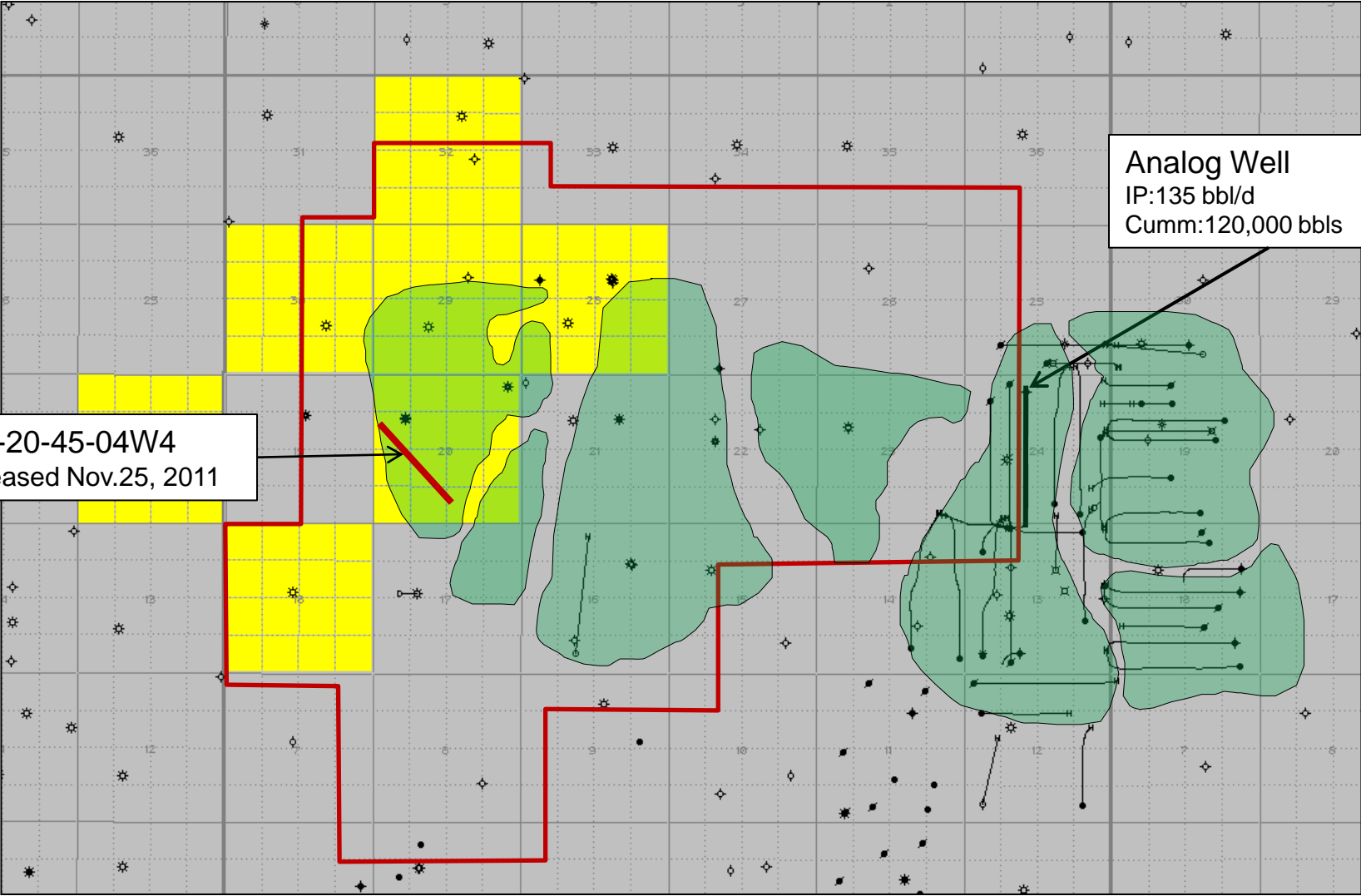
- Producing Wells 
- 2012 Proposed drills 
- Future drills 



**2012 Planned Lindahl Activity**

- 12 Gross wells
- 0.98 Net wells
- ~265 BOE/d net avg. 1<sup>st</sup> yr Prod

# Edgerton Leduc - Project



103/12-20-45-04W4  
Rig Released Nov.25, 2011

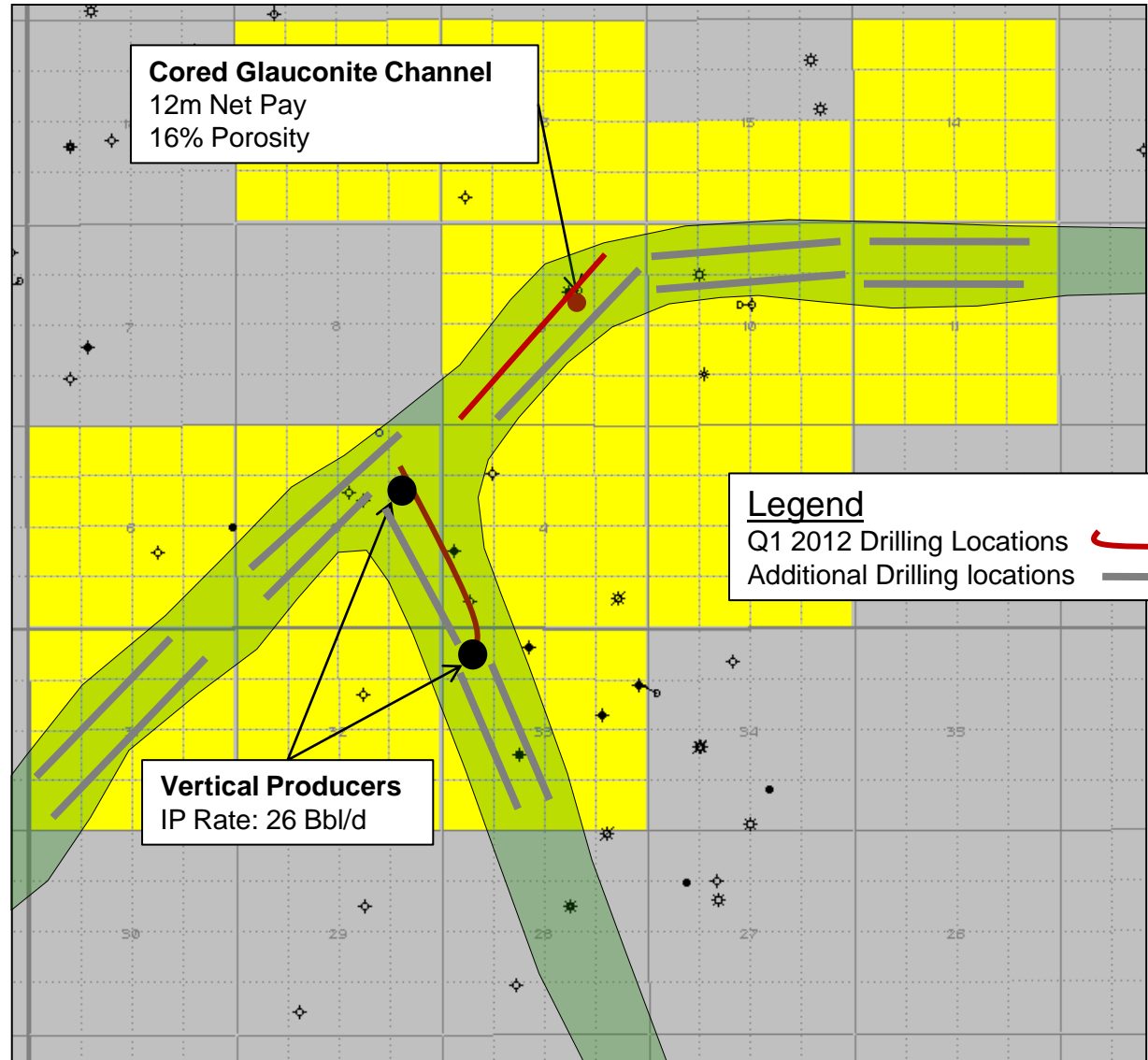
Analog Well  
IP:135 bbl/d  
Cumm:120,000 bbls



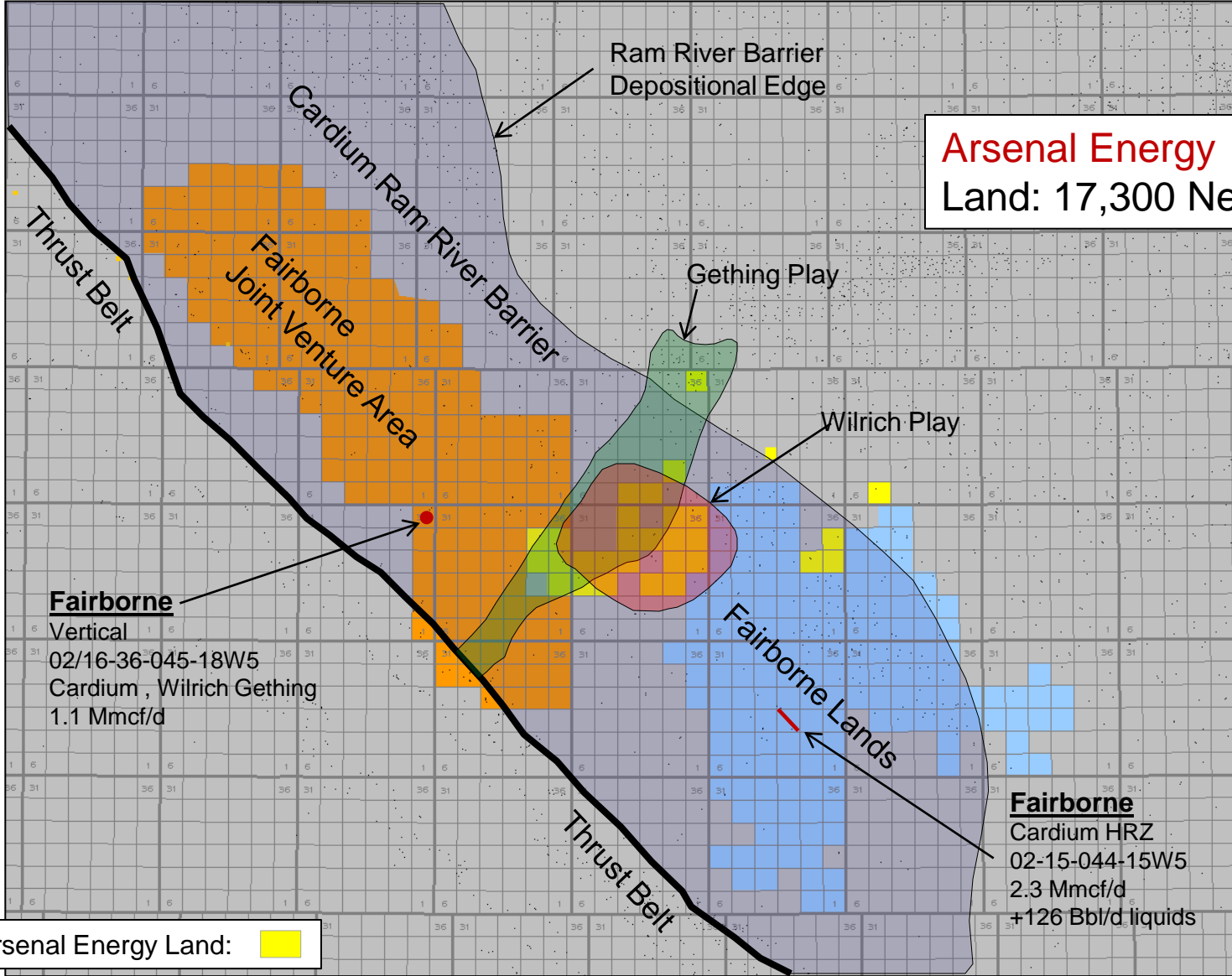
# Princess Glaucouite Hz Development Project

**1 mile horizontal (10 stage Frac)**  
 Reserves: 123 MBBL/163 MBOE  
 F&D : \$13.80/BOE  
 Cost: 2.25 MM\$  
 NPV10: 1.71 MM\$  
 B.T. ROR: 48.40%  
 Recycle Ratio: 3.1

\*Horizontal Oil incentive  
 – 18 month 5% royalty cap.

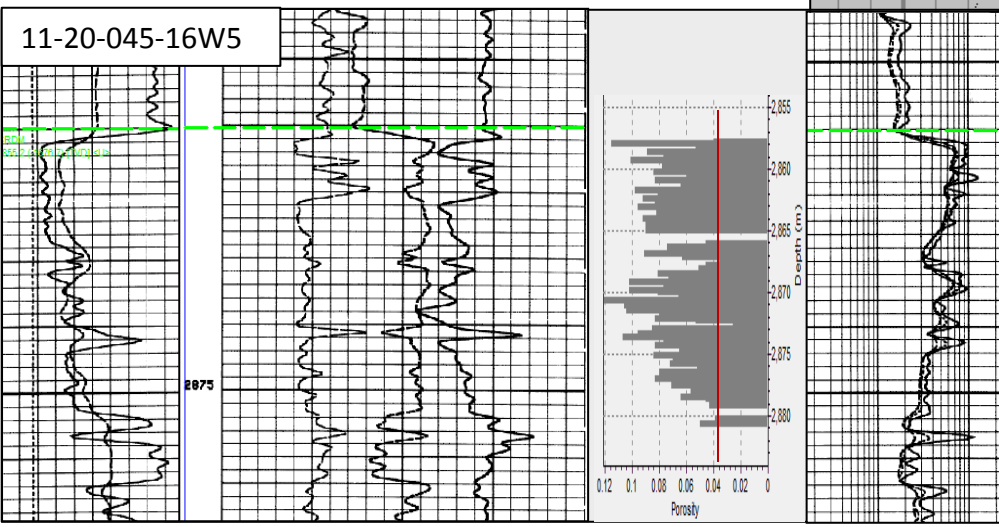
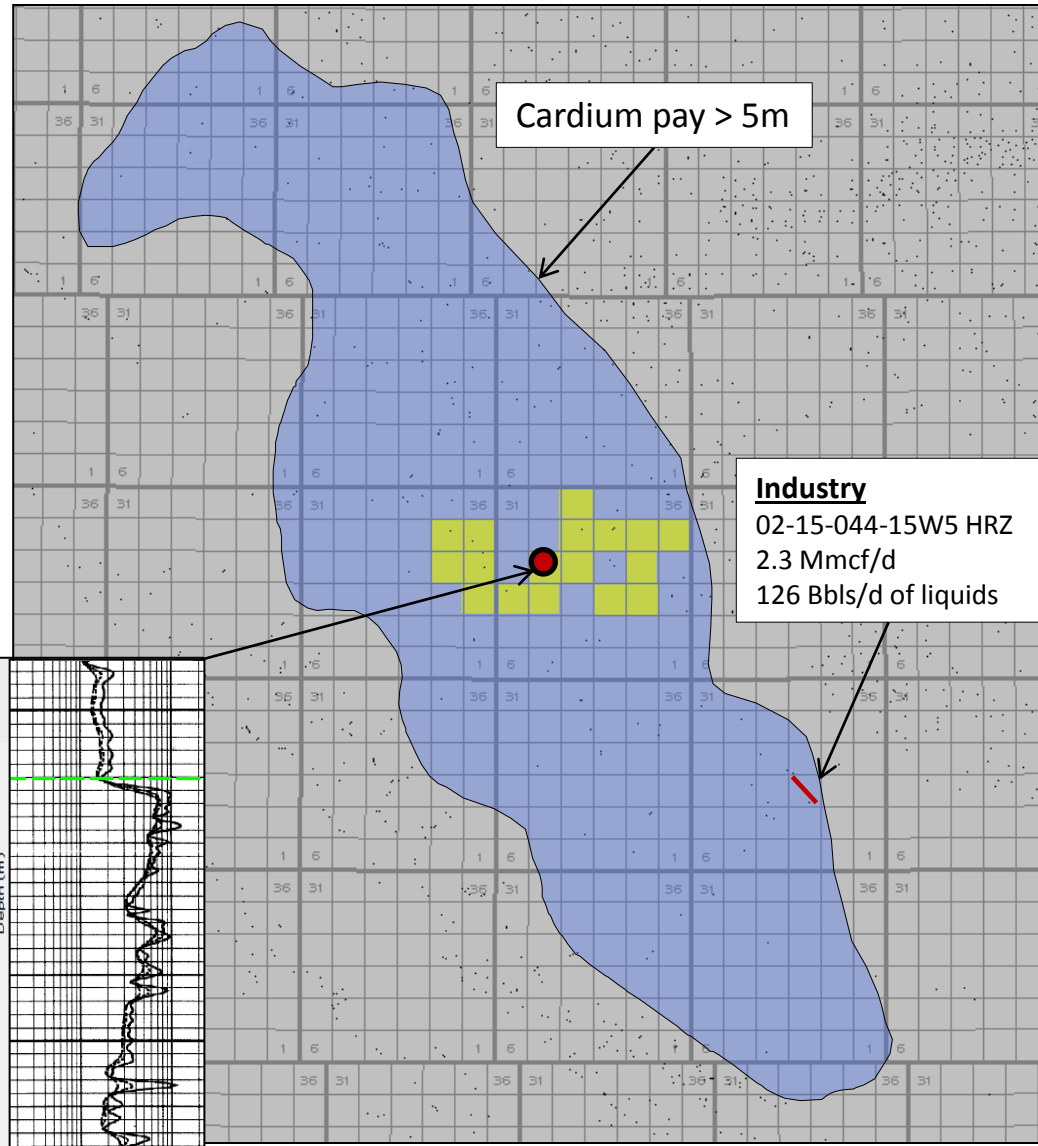


# Columbia Area Play Overview



# Columbia Deep Basin Cardium Play

Volumetric Parameters	
Porosity (%):	9
Water Saturation (%):	25
Thickness(m):	12
Area(acres):	640
Recovery Factor(%):	75
Liquid Content / Mmcf(Bbl):	50
Original Raw Gas in Place / section (Bcf):	17.6
Rec. Reserves / well (2 well/section)	
Gas(Bcf):	3.9
Liquids(Mbbl):	227

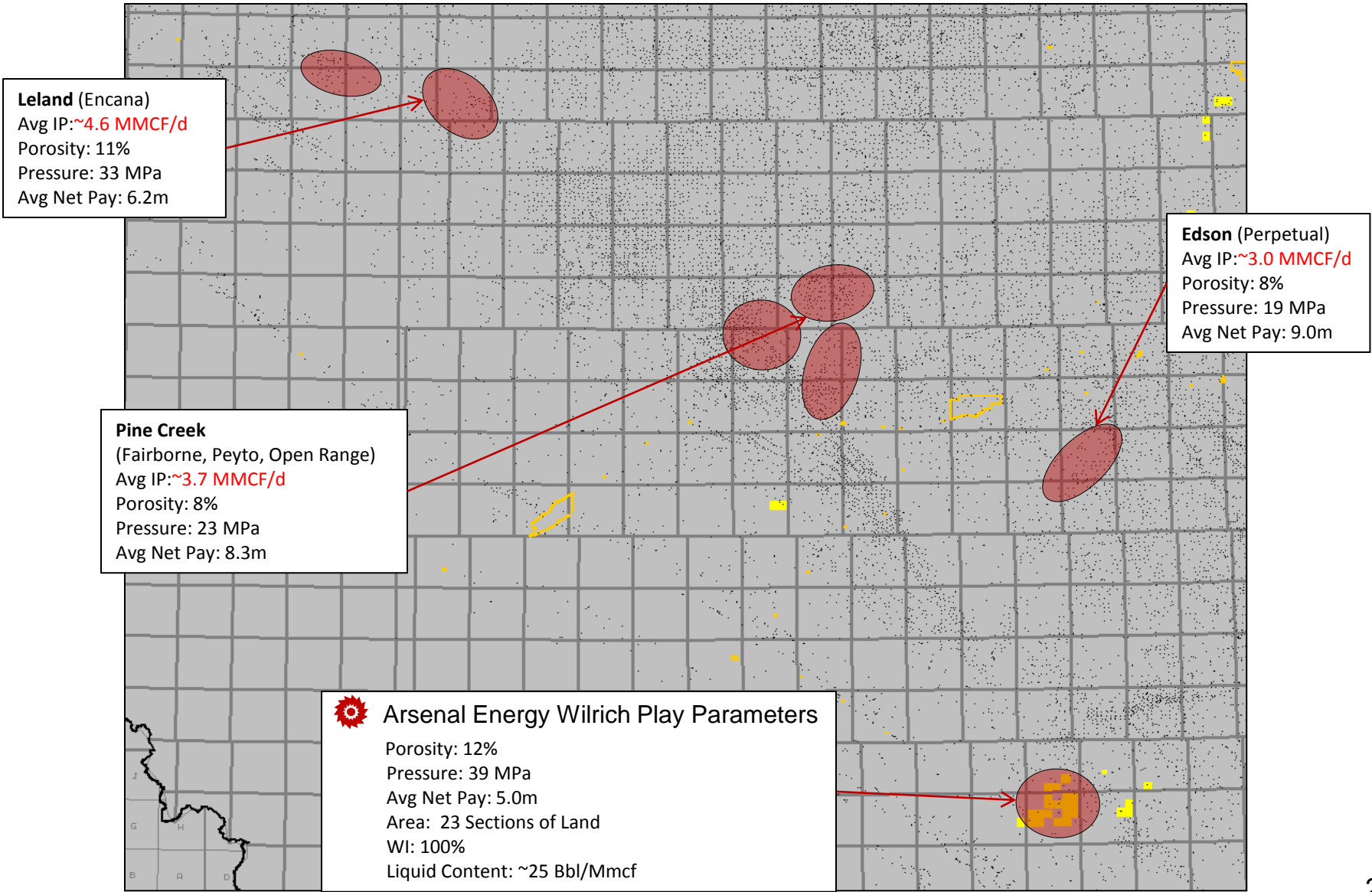


## Economics Columbia – *Cardium Liquids Rich Gas*

<b>HRZ Type Well – 100 % WI / FS Price</b>	<b>Columbia (Cardium)</b>	
<b>Production and Reserve</b>		
Initial Production (30 day)	400	BOE/D
Full Year Avg. Production	222	BOE/D
• Liquid Content	23%	
Reserves (Proven)	872	MBOE
<b>Capital</b>		
Drill / Complete / Tie In	6,250	\$K CDN
<b>Metrics (Drill)</b>		
F&D	7.17	\$/BOE
Recycle Ratio	3.00	
<b>Discounted Cash Flow</b>		
BT ROR	25	%
BT NPV10	3,580	K\$ CDN



# Wilrich Deep Basin Gas



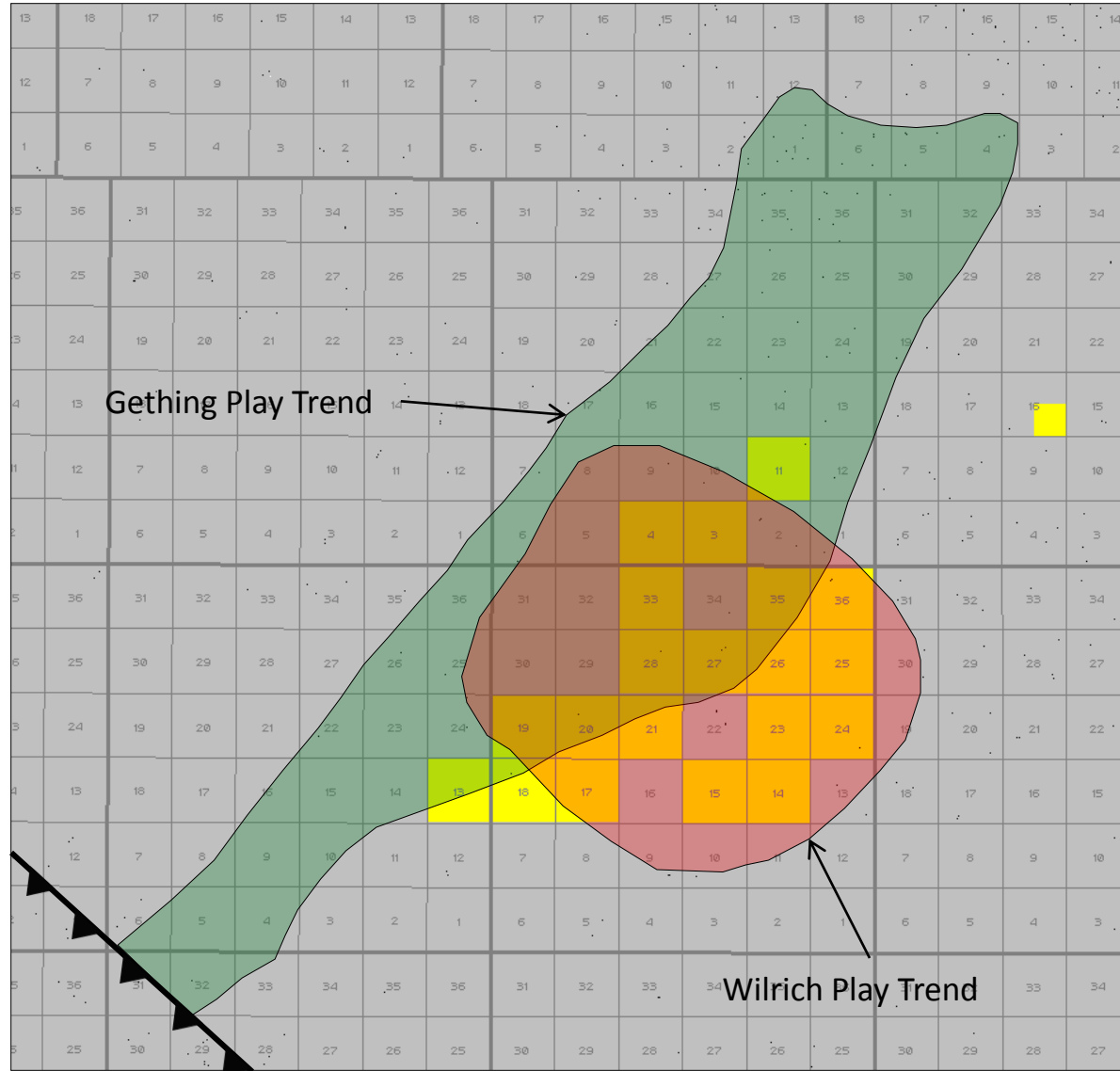
# Columbia Deep Gas Wilrich and Gething Plays

## Volumetric Reserves (Estimated Proven)

**Wilrich:** OGIP: 7.6 Bcf/Sec  
Reserve: 3.8 Bcf/Sec

**Gething Sand:** OGIP: 4.6 Bcf/Sec  
Reserve: 2.3 Bcf/Sec

Liquid content: 12 – 32 Bbl / Mmcf  
Combined Zones 1.1 MMBOE/Section

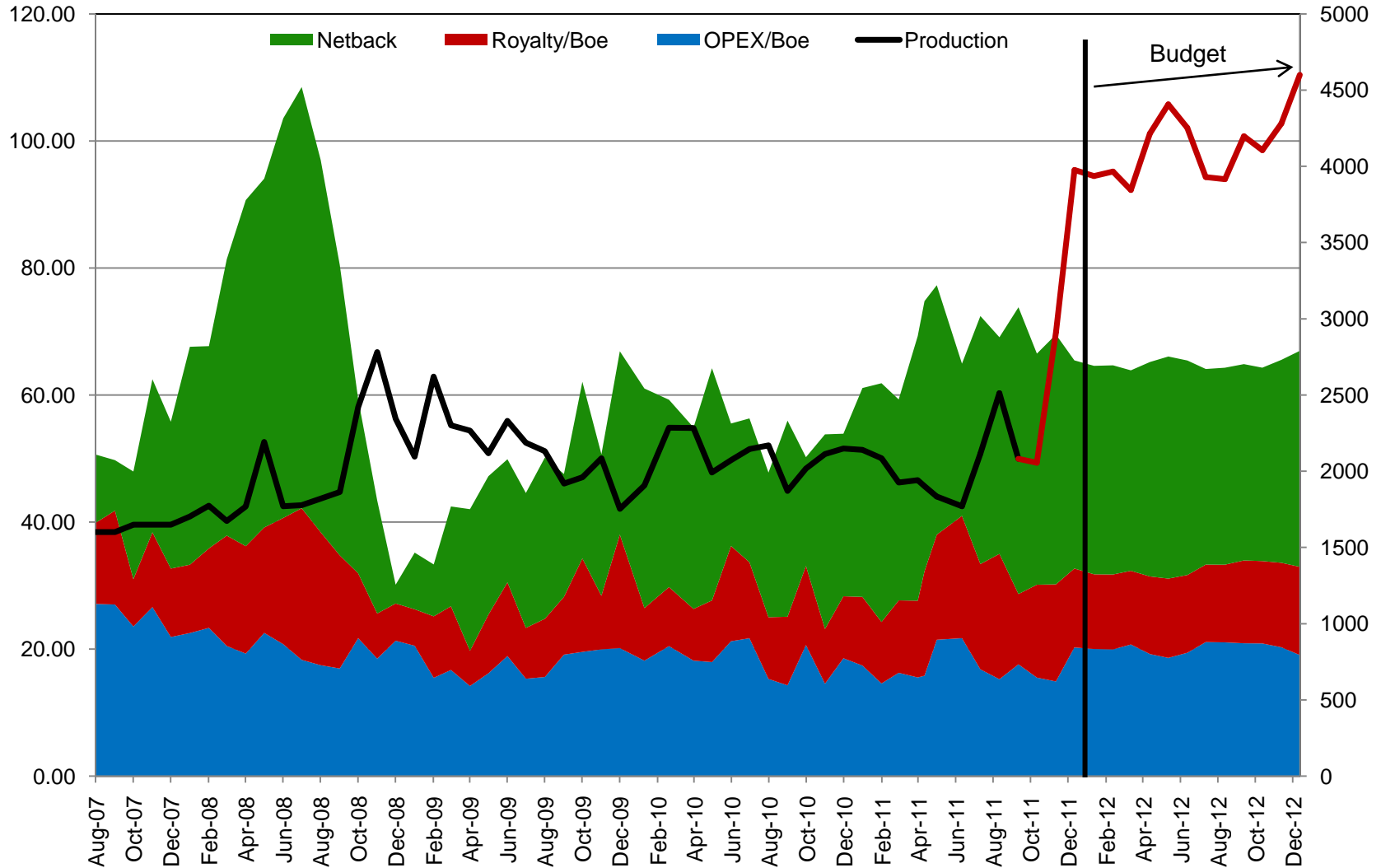


## High Impact – *Oil Resource Focused* Inventory

<b>Drill Locations:</b>	<b>Gross Locations</b>	<b>Net Locations</b>
Bakken ThreeForks		
Stanley (Oil)	<b>26</b>	<b>12</b>
Lindahl (Oil)	<b>46</b>	<b>3</b>
Rennie Lake (Oil)	<b>20</b>	<b>8</b>
SE Alberta		
Edgerton (Oil)	<b>21</b>	<b>21</b>
Princess (Oil)	<b>20</b>	<b>20</b>
Columbia		
Cardium (Liquid Rich Gas)	<b>34</b>	<b>34</b>
Wilrich (Liquid Rich Gas)	<b>46</b>	<b>46</b>
Gething (Liquid Rich Gas)	<b>23</b>	<b>23</b>
<b>Total In House Locations:</b>	<b>236</b>	<b>167</b>



# Production Volumes and Operating Margins



# Capitalization and Valuation

<b>Valuation Summary (as at Dec 15, 2011)</b>			
<b>Capitalization</b>			
Share Price	\$	0.57	
Shares Outstand (basic MM)		157.6	Market Capitalization (\$MM) 89.8
Net Debt (\$MM)		54.0	Credit Facility (\$MM) 75.0
Enterprise Value (\$MM)		143.8	
<b>Trading Metrics (pro forma)</b>			
2011 est. cash flow (\$MM)		30.0	P+P Reserves (MMboe) 13.0
2011 est. CFPS	\$	0.19	EV/P+P Reserves (\$/boe) \$ 11.06
P/CF - 2011E		3.0X	
2012 est. cash flow (\$MM)		41.3	Proven Reserves (MMboe) 9.0
2012 est. CFPS	\$	0.26	EV/Proven Reserves (\$/boe) \$ 15.98
P/CF - 2012E		2.2X	
2010 Year End NAVPS	\$	1.36	Current Production (boe/d) 3,900
P/NAVPS		0.42	EV/boe/d - current (\$/boe/d) \$ 36,880





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