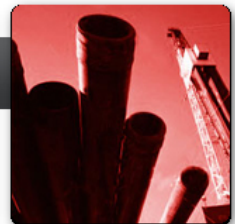




Arsenal Energy Inc.

BACK TO GRASS ROOTS EXPLORATION



ARSENAL ENERGY INC. (TSX – AEI) (FRANKFURT – A1E)

ARSENAL ANNOUNCES SECOND QUARTER 2008 OPERATING AND FINANCIAL RESULTS

Arsenal is pleased to report its Q2 2008 results. Oil price increases through the second quarter resulted in strong netbacks and cash flows. Production volumes increased 11 % over the previous quarter and Q2 drills should result in a production increase again in the third quarter.

Subsequent to quarter end, Arsenal and Geocan Energy announced an arrangement providing for the acquisition by Arsenal of Geocan. The combination will add approximately 850 bbls/d of production and 1.8 million boe of proven producing reserves for a purchase price of \$30 million in cash and the issuance of 10.6 million shares of Arsenal. After closing in October, Arsenal is forecast to be producing at approximately 2830 boe/d and cash flowing approximately \$10.7 million per quarter. Net debt plus working capital after closing is forecast at approximately \$50 million.

Q2 HIGHLIGHTS

- Average production of 1909 boe/d vs. 1725 boe/d in Q1
- Operating netbacks of \$51.77 per boe vs. \$32.82 per boe in Q1
- Quarterly cash flow from operations of \$8.1 million vs. \$3.8 million in Q1
- Quarter end total debt + working capital of \$14.3 million vs. \$18.7 million in Q1

PROFIT/LOSS

Arsenal showed a loss of \$1.9 million for the second quarter. Arsenal booked a mark to market loss of \$6.6 million on a 300 bbls/d hedge. Excluding that loss, Arsenal would have shown a pretax profit.

OPERATIONS IN REVIEW

The company has established three key plays at Evi Alberta, East Central Alberta, and Stanley, North Dakota. In the second quarter, Arsenal participated in the drilling of 9 gross (7.8 net) wells resulting in 5 gross (5.0 net) oil wells, 3 gross (1.8 net) dry holes, and 1 gross (1 net) water disposal well. All of the wells were in East Central Alberta. Arsenal expects to drill 5 gross (4.3 net) wells in the third quarter.

EVI

During Q1 all of Arsenal's production was tied in to a battery acquired in Q4. Operating costs for the field dropped from \$22.86 per bbl in Q1 to around \$9.00 per bbl currently. Five (2.1 net) locations have been selected for drilling in the fourth quarter and Arsenal has an additional 4 other locations in inventory.

EAST CENTRAL ALBERTA

At Galahad Arsenal drilled two (2 net) oil wells in Q2. An additional five (5 net) wells were drilled subsequent to quarter end. Five wells were cased as potential oil wells and two were abandoned. Five of the wells were exploratory tests on a new 400 acre structure. One well tested gas at 3mmcf/d, one tested oil at 180 bbls/d, one is awaiting completion, and two were abandoned. Based on drill results, Arsenal now interprets the project as three separate structures. Arsenal will formulate development plans for the new structures after a few months of production history.

Arsenal drilled three (3 net) wells at Provost in Q2. One well was completed as a Lloydminster oil well, one was completed as a Rex oil well and one was abandoned. The two new wells are anticipated to produce 60 bbls/d of net production when they come on stream in August.

STANLEY

Arsenal has 1896 net acres of Bakken deep rights in the Stanley area. The company has executed an AFE to participate in a horizontal Bakken well with a 3,000 meter lateral. Arsenal will have a 35% working interest. The well is expected to spud around the middle of August and take about 50 days to drill. Arsenal anticipates receiving a number of additional drilling AFEs in the coming quarters.

EGYPT

As previously disclosed, Arsenal has extensively shopped its Egyptian concession and did not generate any material interest. Arsenal has agreed to sell its Egyptian subsidiary for nominal value, effective June 30, 2008. Going forward Arsenal will have no interests in Egypt.

COMMODITY PRICING

The reference prices received for oil and natural gas continued to increase during the second quarter of 2008. Arsenal's mix of light vs. heavy oil also improved. The average Q2 2008 boe price before derivatives increased to \$96.02 per boe, up 33% from Q1 2008.

OPERATING EXPENSES

Operating costs averaged \$21.65 per boe during the second quarter. This is an improvement from \$22.65 per boe during Q1. During the quarter Arsenal undertook several facility turnarounds that cut volumes and added to operating costs. With these operations complete, Q3 unit operating costs should show additional improvement.

CASH FLOW

Cash flow from operations for the second quarter was \$8.1 million or \$0.09 per share. The large increase from Q1 2008 is due to higher realized prices, higher volumes, a better quality production mix, and a decrease in one time charges and prior period adjustments.

DEBT

Strong Q2 cash flows reduced total debt from \$18.7 million at the end of Q1 to \$14.3 million at the end of Q2. Current debt is less than 6 months cash flow. Arsenal's financial strategy is to target leverage at one times cash flow. The combination with Geocan will bring the debt to forward cash flow ratio to approximately 1.1 : 1.

OUTLOOK

Oil and gas prices have weakened recently but if they stabilize above \$100 per bbl, it is anticipated that the third quarter realizations should be close to those of Q2. It is also anticipated that volumes in Q3 will be slightly higher and costs should be lower. Arsenal recently added two additional oil hedges. For the third quarter Arsenal has total hedges of 800 bbls/d of oil at a combined reference price of Cdn \$117 per bbl. Head office initiatives and the dropping of the Egyptian concession are expected to lower overhead. Cash flows should continue to be strong.

Over the next six months Arsenal has a very exciting program. We plan to spud a high impact Bakken well at Stanley, North Dakota, to tie in production from our successful Q2 East Central Alberta drilling program, and to continue our highly successful drilling program at Evi. In October, with the closing of the Geocan transaction, Arsenal's production and reserves will grow by over 30%.

SUMMARY OF OPERATING & FINANCIAL RESULTS				
	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
FINANCIALS				
Funds from operations ¹	8,050,518	1,078,581	11,840,223	2,920,590
Per share - basic and diluted	0.09	0.01	0.14	0.04
Net Loss	(1,925,853)	(9,406,449)	(2,413,879)	(17,405,474)
Per share - basic and diluted	(0.02)	(0.13)	(0.03)	(0.24)
Total debt (excluding derivatives)	14,266,267	13,943,031	14,266,267	13,943,031
Capital expenditures	4,792,985	5,681,242	9,677,825	8,680,431
Property acquisitions	974,733			
Property dispositions	1,225,792	14,000,000	1,235,792	14,000,000
Wells drilled				
Gross	9.00	1.00	17.00	4.00
Net	7.80	0.13	13.35	2.75
Shares outstanding, end of period	90,719,815	73,917,173	90,719,815	73,917,173
Trading Range				
High	0.98	0.75	0.98	1.06
Low	0.57	0.33	0.40	0.33
Close	0.81	0.48	0.81	0.48
Average daily volume	225,920	160,414	211,694	183,289
OPERATIONS				
Daily production (average)				
Heavy oil (bbl)	517	685	535	704
Crude oil and NGLs (bbl)	957	527	909	672
Natural gas (mcf)	2,610	2,083	2,237	2,155
Total (boe)	1,909	1,559	1,817	1,734
Realized commodity prices (\$Cdn.)				
Heavy oil (bbl)	92.88	49.96	78.84	41.26
Crude oil and NGLs (bbl)	113.67	62.17	100.62	60.19
Natural gas (mcf)	10.15	7.31	9.01	7.48
Average (boe) ²	96.02	54.81	84.65	49.25
Reference pricing				
WTI (U.S.\$/bbl)	123.96	64.93	110.94	61.51
AECO gas (\$Cdn./mcf)	10.19	7.06	9.08	7.23
Foreign Exchange (\$U.S./\$Cdn.)	0.99	0.91	1.00	4.11
Operating netback (per boe)				
Revenue	96.02	54.81	84.65	49.25
Royalty	(18.01)	(11.29)	(15.74)	(11.34)
Operating cost	(21.65)	(26.98)	(22.13)	(20.38)
Other expense	(1.23)	0.00	(0.64)	0.00
Hedging	(3.36)	0.00	(1.92)	0.00
Operating netback	51.77	16.53	44.22	17.52

(1) Funds from operations is calculated as cash provided by operating activities plus the change in non-cash working capital. Funds from operations is used to analyze the Company's operating performance and leverage. Funds from operations does not have a standardized measure prescribed by the Canadian Generally Accepted Accounting Principles and therefore may not be comparable with the calculations of similar measures for other companies.

(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 (6mcf/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.

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