

# ARSENAL ENERGY INC.

## (TSX – AEI)

### ARSENAL ENERGY RELEASES Q2 RESULTS

**CALGARY, August 12, 2009-** Arsenal Energy Inc. (“Arsenal”) (TSX: AEI) is pleased to release its 2009 Q2 results. Arsenal’s operating netbacks doubled compared to the first quarter due to Arsenal’s 68% weighting to oil. The resulting cash flow increases have allowed Arsenal to increase its capital program targeting the Bakken in North Dakota. Management is encouraged by Bakken results to date and from recent results released by offsetting operators in the newly emerging Three Forks play. Management is increasing its target exit production rate to 2600 boe/d. Full details are contained in the financial statements and MD&A filed on SEDAR and on the Company’s website.

	Three Months Ended June 30			% Change	Six Months Ended June 30		
	2009	2008			2009	2008	% Change
<b>Financial</b>							
Net loss	(3,235,660)	(1,925,853)		(6,307,371)	(2,413,879)		
Per diluted share	(0.03)	(0.02)		(0.06)	(0.03)		
Funds from operations	\$2,031,722	\$8,083,005	(75)	\$12,346,992	\$11,881,151		4
Per diluted share	0.02	0.09	(78)	0.12	0.14		(11)
Total net debt	\$37,104,499	\$14,266,267	160	\$37,104,499	\$14,266,267		160
Shares outstanding	101,249,646	90,719,815	12	101,249,646	90,719,815		12
<b>Operations</b>							
Production (boe/d)	2,236	1,909	17	2,283	1,817		26
Revenue (per boe)	\$47.35	\$96.02	(51)	\$42.61	\$84.65		(50)
Operating expenses (per boe)	\$16.62	\$21.65	(23)	\$17.03	\$22.13		(23)
Royalties (per boe)	\$8.80	\$18.01	(51)	\$8.69	\$15.74		(45)
Transportation expenses (per boe)	\$1.09	\$-		\$1.05	\$-		
Operating netback (per boe)	\$20.84	\$56.36	(63)	\$15.84	\$46.78		(66)
<b>Capital</b>							
Net wells drilled							
Oil	-	6.80		0.36	11.35		(97)
Gas	-	-		-	-		
Dry	-	1.00		-	2.00		
Capital expenditures	(\$1,139,845)	(\$4,792,985)	(76)	(\$3,714,906)	(\$9,677,825)		(62)
Property dispositions	\$2,326,749	\$1,225,792	90	\$3,166,124	\$1,235,792		156

## **Financial**

Arsenal had 2009 Q2 funds from operations of \$2.0 million. Results were 75% lower than that of Q2 of 2008 due to significantly lower prices offset by higher production volumes and lower operating costs. Cash flow was also negatively affected by one time charges for a prior period tax assessment and bank refinancing charges. Net loss for Q2 was \$3.2 million.

Net debt at quarter end was \$37.1 million. Since closing the GEOCAN Energy acquisition in October 2008, Arsenal has retired approximately \$17 million in debt through property sales and hedge realizations. Based on current forward strip pricing, with anticipated production increases from Arsenal's capital program combined with modest noncore property sales, management anticipates achieving its target debt/cash flow ratio of 1X early in 2010.

## **Operations**

Average production of 2236 boe/d during the second quarter was an increase of 327 boe/d from the second quarter of 2008. This production increase is attributable to the acquisition of GEOCAN Energy Inc. and the addition of Bakken volumes from North Dakota. These increases were partially offset by property sales and natural declines. Arsenal's Q2 production mix was 68% oil and liquids and 32% natural gas.

Operating costs decreased to \$16.62/boe in Q2 2009 compared to \$21.65/boe for the same period in 2008. The decrease is due to the sale of high cost production, the addition of lower cost GEOCAN assets, the addition of lower cost Bakken production, and various operating cost initiatives.

In the second quarter, Arsenal restricted capital spending to the completion of Q1 Bakken drills and minor maintenance. Since quarter end, Arsenal has participated in the drilling of 2 (.36 net) Bakken wells. Both wells are currently awaiting completion. A third well (31% WI) is scheduled to spud in August. Results of all three wells will be released when they are available. In addition, in Q4 2009 or Q1 2010 Arsenal anticipates drilling an additional two Bakken wells, four drills on its Evi play, and the tie in of two wells drilled at Galahad in 2008.

Operators in North Dakota have begun to apply the horizontal/multi stage frac technology of the Bakken formation to the Three Forks formation immediately beneath it. Wells in the Three Forks formation are producing at 200 bbls/d within four miles of Arsenal lands at Lindahl and at 800 bbls/d within six miles of Arsenal lands at Stanley. Arsenal expects that it is likely that these pools will extend over very large areas.

## **Outlook**

Based on the current forward strip, Arsenal anticipates that it will achieve operating margins of approximately \$25.05/boe for the remainder of 2009 on average production of approximately 2450 boe/d. Capital expenditures are currently estimated at \$7.4 million for the last half of 2009. This is expected to yield funds from operations before interest and overhead of approximately \$10.8 million for

the last half of 2009. Arsenal expects to exit 2009 at a debt/cash flow ratio of 1.5 times and plans to continue to reduce this ratio through non-core property sales and reductions in unit operating expenses.

Oil prices have continued to strengthen, with the forward strip for WTI above \$75 US for all of 2010. At these levels, Arsenal can sustain a significant capital program. Based on 640 acre spacing, Arsenal has an inventory of 11 Bakken locations at Stanley and 7 Bakken locations at Lindahl. The emerging Three Forks play has the potential to add a development of similar scope. In addition, Arsenal has a significant conventional oil development inventory and has begun building an inventory of unconventional gas lands anticipating the eventual return of gas prices to reasonable levels.

### **Advisory**

All barrels of oil equivalent (boe) conversions in this report are derived by converting natural gas to oil at the ratio of six thousand cubic feet (Mcf) of natural gas to one barrel (bbl) of oil. Certain financial values are presented on a boe basis and such measurements may not be consistent with those used by other companies. Boe amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf: 1 bbl) and is based on an energy equivalency conversion method applicable at the burner tip and does not represent a value equivalency at the wellhead.

Certain financial measures referred to in this release, such as funds from operations and funds from operations per share, are not prescribed by generally accepted accounting principles (GAAP). Funds from operations is a key measure that demonstrates the ability to generate cash to fund expenditures. Funds from operations is calculated by taking the cash provided by operations from the consolidated statement of cash flows and adding back changes in non-cash working capital. Funds from operations per share is calculated using the same methodology for determining net income per share. These non-GAAP financial measures may not be comparable to similar measures presented by other companies. These financial measures are not intended to represent operating profits for the period nor should they be viewed as an alternative to cash provided by operating activities, net income or other measures of financial performance calculated in accordance with GAAP.

Management uses certain industry benchmarks such as field netback to analyze financial and operating performance. Field 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 GAAP and may not be comparable to similar measures presented by other companies. Management considers field 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)