

ARSENAL ENERGY INC.
(TSX – AEI)
ARSENAL ENERGY RELEASES Q2 RESULTS

CALGARY, August 10, 2011- Arsenal Energy Inc. (“Arsenal”) (TSX: AEI) is pleased to release its 2011 Q2 results. Arsenal posted record revenue and a \$3.0 million profit in Q2. Volumes, operating costs, and the capital development program were challenged by wet conditions in North Dakota. Those conditions have improved and Arsenal anticipates higher volumes, lower costs, and an accelerated development program in Q3 and through the end of 2011.

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

Financial

In Q2 2011, the Company set a new quarterly high for revenue of \$12.7 million, a 9% increase over Q1 record revenue of \$11.6 million. The record revenue is due to higher oil prices and Arsenal’s continued improvement in production mix. The Q2 mix of 82% oil and 18% natural gas contributed to a realized operating netback of \$38.45 per Boe for the quarter.

Funds flow before the effect of commodity contracts totaled \$4.8 million, down from \$5.4 million in Q1 2011. Funds flow declined due to lower production volumes and higher costs associated with wet field conditions in North Dakota and higher trucking costs at Evi associated with the Plains pipeline shutdown. Net income for Q2 was \$3.0 million.

Arsenal’s debt and working capital deficiency at quarter end was \$9.9 million. Subsequent to quarter end, Arsenal liquidated its entire hedge book resulting in proceeds of \$4.5 million. Estimated current net debt of \$6.0 million is well below the company’s \$60 million credit facility and the debt to annualized cash flow ratio is well below the target ratio of 1:1. Arsenal is positioned to execute its capital program and to act on opportunistic acquisitions.

Operations

Average production of 1826 boe/d during the second quarter was lower than Q1 production due to wet weather conditions in North Dakota. Melting of heavy winter snow pack combined with spring rains flooded lease sites and roads, resulting in production shut-ins. In the first quarter Arsenal drilled two high impact Bakken wells, the Brenlee (80% WI) and the Amy Elizabeth (62% WI). The expected 2nd quarter completion of those wells was delayed by the weather. Subsequent to quarter end, the majority of Arsenal’s shut in production was brought on line and the remainder should come on line over the next 30 days. The Brenlee well was fracture stimulated and placed on production. It has produced at an average rate of 683bbls/d of oil over 18 days. The Amy Elizabeth well has been fracture stimulated. Flow test results will be released when available.

Operating costs increased to \$20.34/boe in Q2 2011 compared to \$15.83/boe in Q1. The increased unit cost was due to production curtailments and to additional trucking costs associated with the temporary shutdown of the Plains pipeline system that normally transports Arsenal's Evi, Alberta oil production.

SUMMARY OF FINANCIAL AND OPERATIONAL RESULTS						
	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	% Change	2011	2010	% Change
FINANCIAL						
Oil and gas revenue	12,729,872	11,128,046	14	24,349,016	22,714,559	7
Cash provided by operation activities	4,096,938	3,581,655	14	8,364,894	7,080,205	18
Funds from operations	4,301,767	4,007,438	7	9,407,402	9,196,842	2
Per share - basic	0.03	0.03	(10)	0.06	0.07	(15)
-diluted	0.03	0.03	(9)	0.06	0.07	(15)
Net income (loss)	3,011,927	574,690	424	(4,927,929)	505,623	(1,075)
Per share - basic	0.02	nil	-	(0.03)	nil	-
-diluted	0.02	nil	-	(0.03)	nil	-
Total debt	9,931,680	19,886,286	(50)	9,931,680	19,886,286	(50)
Capital expenditures	6,104,750	2,260,705	170	18,255,491	9,348,061	95
Property dispositions	-	-	-	(598,509)	(214,831)	179
Wells drilled (net)						
Oil	-	-	-	1.03	2.15	(52)
Gas	-	-	-	-	-	-
Dry	-	-	-	2.00	-	-
Total net wells drilled	-	-	-	3.03	2.15	41
Shares outstanding - end of period	161,761,062	134,195,472	21	161,761,062	134,195,472	21
OPERATIONAL						
Daily production						
Heavy oil (bbl/d)	504	644	(22)	526	643	(18)
Light oil and NGLs (bbl/d)	1,004	1,051	(5)	1,051	989	6
Natural gas (mcf/d)	1,908	2,189	(13)	2,017	2,849	(29)
Oil equivalent (boe @ 6:1)	1,826	2,060	(11)	1,913	2,107	(9)
Realized commodity prices (\$Cdn.)						
Heavy oil (bbl)	79.08	60.51	31	73.15	64.96	13
Light oil and NGLs (bbl)	92.27	70.44	31	84.18	71.23	18
Natural gas (mcf)	3.88	4.24	(8)	3.75	4.65	(19)
Oil equivalent (boe @ 6:1)	76.62	59.37	29	70.31	59.55	18
Operating netback (\$ per boe)						
Revenue	76.62	59.37	29	70.31	59.55	18
Royalty	(15.42)	(11.32)	36	(13.22)	(10.03)	32
Operating cost	(20.34)	(21.48)	(5)	(17.99)	(20.46)	(12)
Transportation cost	(2.42)	(0.87)	178	(1.82)	(1.05)	73
Operating netback per boe	38.45	25.70	50	37.28	28.01	33
General and administrative	(7.54)	(5.53)	36	(6.68)	(4.82)	38
Finance expenses	(1.95)	(1.90)	2	(1.30)	(1.61)	(19)
Other	(0.06)	0.13	(144)	0.09	0.24	(61)
Realized hedging gains (losses)	(3.01)	2.97	(201)	(2.23)	2.29	-
Funds flow per Boe	25.89	21.38	21	27.16	24.11	13

Outlook

Third quarter volumes should increase as curtailed production in North Dakota comes back on line and

as the Brenlee and Amy Elizabeth wells contribute new volumes. Unit costs should decline as production volumes increase and when the Plains pipeline at Evi comes back into service. Arsenal's production mix should continue to improve but revenue per boe will likely decline due to softening oil prices.

Arsenal has licensed three new Bakken wells in North Dakota; the Gjoa Lynn (50% WI), the Anthony Robert (79.5% WI), and the Wade Morris (79.5% WI). Arsenal anticipates drilling two of the wells in 2011 with the third to follow in early 2012.

Arsenal has a drilling program planned for eastern Alberta in Q3/Q4. Four vertical Mannville wells are planned at Provost, two horizontal wells in the Leduc formation are planned at Edgerton, and two horizontals are planned in the Glauconite formation at Princess. The drills at Chauvin, Edgerton, Princess have the potential, if successful, to open up larger development programs.

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Advisory

All barrels of oil equivalent (boe) conversions in this report are deprived 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).

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