No securities regulatory authority has expressed an opinion about the securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. See "*Plan of Distribution*".

Information has been incorporated by reference in this short form prospectus from documents filed with the securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer and Corporate Secretary of Carmen Energy Inc., at 300, 840 - 6th Avenue SW, Calgary, Alberta T2P 3E5, Telephone (403) 537-5590, and are also available electronically at www.sedar.com.

Short Form Prospectus

New Issue **December 12, 2011**

Up to $3,000,000
(13,043,478 Units)

Up to $3,000,000
(11,111,111 Flow-Through Shares)

Price:
$0.23 per Unit
$0.27 per Flow-Through Share

This short form prospectus qualifies the distribution of: (i) up to a maximum of 13,043,473 units ("**Units**") of Carmen Energy Inc. ("**Carmen**" or the "**Corporation**") at a price of $0.23 per Unit; and (ii) up to a maximum of 11,111,111 common shares of the Corporation to be issued as "flow-through shares" (the "**Flow-Through Shares**") within the meaning of the Tax Act (as defined herein) at a price of $0.27 per Flow-Through Share (collectively the "**Offering**"). Each Unit will be comprised of one Common Share (as defined herein) and one half of one Warrant (as defined herein). The Common Shares and the Warrants comprising the Units will separate immediately upon the closing of the Offering. The Units and the Flow-Through Shares, are collectively referred to herein as the "**Offered Securities**". The Units and the Flow-Through Shares are offered separately from each other. See "*Plan of Distribution*".

The Warrants will be created and issued pursuant to the terms of a warrant indenture (the "**Warrant Indenture**") dated the Closing Date (as defined herein) of the Offering between the Corporation and Valiant Trust Company (the "**Warrant Agent**"), as warrant agent thereunder. The Warrants will be exercisable on or before 5:00 p.m. (Calgary time) on the date that is 24 months following the date of issue (the "**Warrant Expiry Time**"). Each whole Warrant entitles the holder thereof to purchase one Common Share at an exercise price of $0.40 per Common Share.

Warrants may be exercised upon surrender of the Warrant certificate on or before the Warrant Expiry Time at the principal office of the Warrant Agent, with the notice of exercise found on the back of the Warrant certificate completed and executed as indicated, accompanied by payment of the exercise price for the number of Common Shares for which the Warrants are being exercised. See "*Details of the Offering*".

The Corporation covenants to incur in the period following closing of the Offering until December 31, 2012 (the "**Expenditure Period**") and renounce to each subscriber of Flow-Through Shares, effective on or before December 31, 2011, Qualifying Expenditures (as defined herein) in an amount equal to the portion of the aggregate purchase price for Flow-Through Shares paid by such subscriber. See "*Details of the Offering*" and "*Certain Canadian Federal Income Tax Considerations*".

The issued and outstanding Common Shares are listed on the TSX Venture Exchange ("**TSXV**") under the symbol "CEI". The TSXV has conditionally approved the listing of the Common Shares and the Common Shares issuable upon exercise of the Warrants to be distributed under this short form prospectus. Listing of such Common Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSXV before March 3, 2011. On December 9, 2011, the last trading day prior to the date of this short form prospectus, the closing price of the Common Shares on the TSXV was $0.25. The terms of the Offering were determined by negotiation between the Corporation and the Agent (as defined herein).

	Price to Public	**Agent's Fee**(1)	**Net Proceeds to the Corporation** (1)(2)
Per Unit...	$0.23	$0.0138	$0.2162
Maximum	$3,000,000	$180,000	$2,820,000
Per Flow-Through Share	$0.27	$0.0162	$0.2538
Maximum	$3,000,000	$180,000	$2,820,000
Total(4)	$6,000,000	$360,000	$5,640,000

Notes:

(1) The Corporation has agreed to pay the Agent a cash fee (the "**Agent's Fee**") equal to 6% of the gross proceeds of the Offering. In addition, the Corporation shall also grant the Agent and its designated sub-agents, if any, that number of non-transferable options (the "**Agent's Options**") equal to 6% of the number of Offered Securities sold under the Offering. Each Agent's Option will entitle the Agent or its designated sub-agent, if any, as applicable, to purchase one Unit exercisable for twenty four months at a price of $0.23 per Unit. This short form prospectus also qualifies the grant of the Agent's Options to the Agent and its sub-agents, if any. See "*Description of Securities Being Distributed – Agent Options*". The Corporation will reimburse the Agent for reasonable out-of-pocket expenses incurred by the Agent in connection with the Offering, including the Agent’s legal fees and expenses. See "*Plan of Distribution*".

(2) Before deducting expenses of the Offering, estimated to be $300,000.

(3) The Offering is being conducted on a commercially reasonable efforts basis, there is no minimum subscription amount.

(4) Values are subject to rounding.

The price of the Units and Flow-Through Shares will be determined by negotiation between the Corporation and the Agent. The Offering is not underwritten or guaranteed by any person. Pursuant to the terms of an agency agreement dated effective as of November 22, 2011 (the "**Agency Agreement**") between the Corporation and the Agent, the Agent conditionally offers the Offered Securities on a commercially reasonable efforts agency basis, subject to prior sale, if, as and when issued by the Corporation in accordance with the Agency Agreement and subject to the approval of certain legal matters on behalf of the Corporation by Burnet, Duckworth & Palmer LLP and on behalf of the Agent by Davis LLP. In connection with this Offering, subject to applicable laws, the Agent may effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those which might prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Subscriptions for the Offered Securities will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at anytime without notice. All subscription funds will be held in trust by the Agent until the Closing Date (as defined below). Closing of the Offering is expected to occur in one or more tranches provided however that the closing of the Flow-Through Shares distributed hereunder shall occur prior to December 30, 2011. The first closing is anticipated to occur on or about the week of December 27, 2011. The Corporation and the Agent may agree to one or more additional closing(s) to occur at any time within 90 days from the date hereof, (each such date, the "**Closing Date**"). At the closing(s), the Offered Securities distributed under this short form prospectus will be available for delivery in book-entry form through the CDS Clearing and Depository Services Inc. ("**CDS**") or, its nominee, and will be deposited with CDS on the Closing Date. Subject to certain exceptions, purchasers of such Offered Securities will receive only a customer confirmation from the registered dealer that is a CDS participant and from or through which the Offered Securities are purchased and shall not have the right to receive physical certificates evidencing their ownership of the such securities. If Closing Date of the

Flow-Through Shares does not occur on or before December 30, 2011, the subscriptions proceeds for the Flow-Through Shares will be returned to subscribers thereof without interest or deduction unless such subscribers have otherwise instructed the Agent. If no Closing Date has occurred within 90 days from the date hereof, all subscription proceeds held by the Agent will be returned to subscribers without interest or deduction unless such subscribers have otherwise instructed the Agent. There is no minimum subscription amount under the Offering and the Agent may close after only raising a small proportion of the Offering. See "*Plan of Distribution*".

Concurrently with the Offering, Carmen will complete a private placement (the "**Concurrent Private Placement**") of up to 2,173,914 Placement Units at a price of $.23 per Placement Unit for gross proceeds to Carmen of up to $0.5 million. This short form prospectus does not qualify the distribution of the Placement Units issuable pursuant to the Concurrent Private Placement. Each Placement Unit shall be comprised of one Common Share (a "**Placement Common Share**") and one half of one Common Share purchase warrant (each whole warrant, a "**Placement Warrant**"). The Placement Warrants shall have the same terms and conditions of exercise as the Warrants issued pursuant to the Offering and will be issued pursuant to the same Warrant Indenture. See "*Details of the Offering – Terms of Warrants".* The Placement Common Shares and Placement Warrants comprising the Placement Units issued pursuant to the Concurrent Private Placement will be subject to a statutory hold period. The Concurrent Private Placement is subject to a number of conditions including completion of definitive documentation, the concurrent closing of the Offering and the approval of the TSXV. The Corporation has applied to the TSXV to list the Placement Common Shares (including any Common Shares issuable upon exercise of the Placement Warrants). Listing of such Common Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSXV. See "*Concurrent Private Placement*".

An investment in the Offered Securities offered hereunder is speculative and involves a high degree of risk. The risk factors identified under the headings "*Risk Factors*" and "*Note Regarding Forward Looking Information"* or incorporated by reference in this short form prospectus should be carefully reviewed and evaluated by prospective investors before purchasing any Offered Securities being offered hereunder. See "*Plan of Distribution*" and "*Risk Factors*".

There is no minimum amount of funds that must be raised under this Offering. This means that the Issuer could complete this Offering after raising only a small proportion of the Offering amount set out above. The Corporation has outlined specific uses for the net proceeds of the Offering which include fulfilling certain drilling commitments. Failure to obtain sufficient funds under the Offering could cause Carmen to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. See "*Use of Proceeds*" and "*Risk Factors*".

There is no market through which the Warrants may be sold and purchasers may not be able to resell the Warrants comprising part of the Units purchased under this short form prospectus. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants, and the extent of issuer regulation. See "*Risk Factors*". The Corporation does not intend to apply to list the Warrants distributed under this short form prospectus on the TSXV or any other stock exchange.

The Offered Securities may only be sold in those jurisdictions where offers and sales are permitted. This short form prospectus is not an offer to sell or a solicitation of an offer to buy the Offered Securities in any jurisdiction where it is unlawful. Investors should rely only on the information contained in or incorporated by reference in this short form prospectus. The Corporation has not authorized anyone to provide investors with different information. Investors should not assume that the information contained in this short form prospectus is accurate as of any date other than the date of this short form prospectus.

The head office of the Corporation is located at 300, 840 – 6th Avenue SW, Calgary, Alberta T2P 3E5, the registered office of the Corporation is located at 2400, 525 – 5th Avenue SW, Calgary, Alberta T2P 1G1.

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ABBREVIATIONS

In this short form prospectus and in certain documents incorporated herein by reference, the abbreviations set forth below have the following meanings.

$/bbl	Dollars per barrel	**CBM**	Coal Bed Methane
$/Mcf	Dollars per one thousand cubic feet	**Km**	Kilometre
AECO	the natural gas delivery point in southeast Alberta	**$000s or M$**	Thousands of Dollars
API	American Petroleum Institute measure of specific gravity of crude oil or condensate in degrees	**Mbbl or Mbbls**	One thousand barrels
		MMbbls	One million barrels
Bbl	Barrel	**Mcf**	One thousand cubic feet
bbl/d or bblpd	Barrel or Barrels per day	**Mcf/d**	One thousand cubic feet per day
BOE	Barrels of crude oil equivalent	**Mmcf**	One million cubic feet
boe/d or boepd	Barrels of crude oil equivalent per day	**Mmcf/d**	One million cubic feet per day
Bopd	Barrels of oil per day	**WTI**	West Texas Intermediate
LT	Long Tonne		

CONVERSIONS

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
Bbls	cubic metres	0.159
cubic metres	Bbls	6.289
Feet	Metres	0.305
Metres	Feet	3.281
Miles	kilometres	1.609
Kilometres	Miles	0.621
Acres	hectares	0.405
Hectares	Acres	2.471
Gigajoules	MMbtu	0.950
MMbtu	gigajoules	1.0526

CONVENTIONS

Information in this short form prospectus and the documents incorporated by reference herein expressed in boe is derived by converting natural gas to oil in the ratio of 6 Mcf of natural gas to 1 bbl of crude oil. **BOE may be misleading, particularly if used in isolation.** A BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

In this short form prospectus, references to "dollars" and "$" are to the currency of Canada, unless otherwise indicated. Certain other terms used herein but not defined herein are defined in Canadian Securities Administrators Staff Notice 51-324.

SELECTED DEFINITIONS

In this short form prospectus, the abbreviations and terms set forth below have the meanings indicated:

"**AIF**" means the annual information form of the Corporation for the year ended September 30, 2010 dated November 4, 2011;

"**Agent**" means Macquarie Private Wealth Inc.;

"**Agent's Option**" means a non-transferable option which entitles the Agent or its designated sub-agent, if any, as applicable, to purchase one Unit for twenty four months from the date of issue at a price of $0.23 per Unit;

"**BAR**" means the business acquisition report regarding the acquisition of certain oil and gas assets in the Ferrybank and Jumpbush areas of Alberta dated October 25, 2011;

"**Business Day**" means a day, other than a Saturday or Sunday, or a statutory holiday, on which major Canadian chartered banks are open for business in Calgary, Alberta;

"**Canadian development expense**" or "**CDE**" means Canadian development expense described in paragraph (a) or (b) of that definition in subsection 66.2(5) of the Tax Act or that would be described in paragraph (f) of that definition if the words "any of paragraphs (a) to (e)" in that paragraph were read as "paragraph (a) or (b)", in all cases excluding amounts which are prescribed to constitute "Canadian exploration and development overhead expense" under the Tax Act and any amount of assistance described in paragraphs 66(12.62)(a) and 66(12.601)(c) of the Tax Act;

"**Canadian exploration expense(s)**" or "**CEE**" means Canadian exploration expense described in paragraphs (a) or (d) of the definition of "Canadian exploration expense" in subsection 66.1(6) of the Tax Act or that would be described in paragraph (h) of such definition if the reference therein to "paragraphs (a) to (d) and (f) to (g.1)" were a reference to "paragraphs (a) and (d)", excluding amounts which are prescribed to constitute "Canadian exploration and development overhead expense" under the Tax Act, the amount of any assistance described in paragraph 66(12.6)(a) of the Act and any expense described in paragraph 66(12.6)(b.1) of the Act;

"**CDS**" means CDS Clearing and Depository Services Inc.;

"**Common Shares**" means the common shares of Carmen;

"**Concurrent Private Placement**" means the private placement to be completed concurrently with the Offering as described on the face pages hereof and under the heading "*Concurrent Private Placement*";

"**Eligible CDE**" means "Canadian development expense" as defined in the Tax Act that may be renounced to subscribers of Flow-Through Shares as CEE in accordance with the Tax Act;

"**GAAP**" means generally accepted accounting principles in Canada;

"**InSite**" means InSite Petroleum Consultants Ltd., independent petroleum consultants of Calgary, Alberta;

"**IPO**" means the initial public offering by the Corporation of Common Shares pursuant to the prospectus dated December 16, 2011 which closed on January 14, 2011;

"**Interim MD&A**" means the restated management's discussion and analysis of the financial condition and operations of the Corporation for the three and nine months ended June 30, 2011 and filed November 2, 2011;

"**Offering**" means the offering of: (i) up to 13,043,478 Units at a price of $0.23 per Unit; and (ii) up to 11,111,111 Flow-Through Shares at a price of $0.27 per Flow-Through Share pursuant to this short form prospectus;

"**Participant**" means a participant in the depository service of CDS;

"**Placement Common Shares**" means the Common Shares comprising the Placement Units issued pursuant to the Concurrent Private Placement;

"**Placement Units**" means the Units comprising the Placement Units issued pursuant to the Concurrent Private Placement;

"**Placement Warrants**" means the warrants comprising the Placement Units issued pursuant to the Concurrent Private Placement;

"**Qualifying Expenditures**" means those expenses that are CEE or Eligible CDE on the date they are incurred to the extent permitted to be renounced by the Corporation to the subscribers of Flow-Through Shares as CEE;

"**Qualifying Transaction**" means the qualifying transaction of the Corporation which was completed in accordance with the policies of the TSXV on June 27, 2011 involving the acquisition of certain assets and the completion of a private placement;

"**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, c. 1 (5th Supp), as amended, including the regulations promulgated thereunder;

"**TSXV**" means the TSX Venture Exchange;

"**United States**" or "**U.S.**" means the United States of America;

"**US Securities Act**" means the United States Securities Act of 1933, as amended; and

"**Warrant**" means a Common Share purchase warrant of the Corporation, where each Warrant is exercisable for one Common Share at a price of $0.40 per Common Share for a period of twenty-four months from the date of issuance.

Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

All dollar amounts set forth in this short form prospectus are in Canadian dollars, except where otherwise indicated.

NOTE REGARDING FORWARD LOOKING INFORMATION

Certain information in this short form prospectus and the documents incorporated by reference herein contain certain forward-looking statements and forward-looking information (collectively, referred to as "**forward-looking statements**") within the meaning of applicable securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "believe", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "plan", "predict", "project", "should", "target", "will", or similar words suggesting future outcomes or language suggesting an outlook. In particular, this short form prospectus and the documents incorporated by reference herein contain forward-looking statements relating to the following:

- the impact and anticipated benefits of acquisitions on the Corporation's operations, financial condition, access to capital and overall strategy;
- expectations regarding the ability to raise capital and to add to reserves through acquisitions, exploration and development;
- assessments of the value of acquisitions and exploration and development programs;
- development and drilling plans for the assets of the Corporation and transportation and infrastructure availability;
- the Corporation's capital program for the ensuing year;
- the ability of the Corporation to achieve drilling success consistent with management's expectations;

- estimates of reserves and resources of the Corporation;
- net present values of future net revenues from reserves;
- production levels and mix of the Corporation's assets;
- timing of and bringing on production of wells in which the Corporation has an interest;
- future production rates;
- expected plans and costs of drilling;
- drilling inventory and presence of crude oil, natural gas or natural gas liquids;
- commodity prices;
- supply and demand for crude oil, natural gas and natural gas liquids;
- expected levels of operating costs, including general and administrative costs, costs of services and royalty rates; and
- treatment under governmental regulatory regimes and tax laws.

Forward-looking statements provide information about management's current expectations and plans relating to anticipated future events, and are based on the Corporation's current beliefs and assumptions regarding, among other things:

- the overall success of the Corporation's 2012 capital program including, without limitation, the number and type of wells to be drilled and the intended target zones of such wells;
- future production levels including, without limitation, anticipated geological and well performance and the ability to add production and reserves through acquisitions and exploration and development activities consistent with historical cost structures;
  the continued existence and operation of existing pipelines;
- future prices for crude oil, natural gas and natural gas liquids;
- future currency and exchange rates;
- anticipated financial performance, including, without limitation, the Corporation's ability to generate sufficient cash flow from operations and to access existing credit facilities and capital markets to meet its future obligations;
- the Corporation's ability to obtain qualified staff, equipment and services in a timely and cost efficient manner to meet the Corporation's demand;
- anticipated regulatory and tax developments; and
- that there will be no significant events occurring outside of the normal course of business of the Corporation.

Statements relating to reserves and resources are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future. Estimated values of future net revenue do not represent fair market value. There is no certainty that it will be commercially viable to produce any portion of the resources.

The success of the Corporation's drilling program is a key assumption in its 2012 capital spending forecast. In addition to the risk factors described below and herein, the primary risk factors which could impact the success of the Corporation's drilling program include failure to obtain the necessary drilling rigs and related equipment on a timely basis and at reasonable prices due to high industry demand, poor weather preventing access to the drill sites, delays due to unexpected issues raised by local landowners and cost overruns due to unanticipated drilling issues. Not all of the properties on which wells are to be drilled are operated by the Corporation and, accordingly, delays may also arise due to issues with the operators of such properties. Any of the foregoing could have a significant impact on the Corporation's 2012 capital spending forecast.

The Corporation intends to use the net proceeds of the Offering to fund the Corporation’s ongoing capital expenditure program including, in the case of proceeds from the issuance of the Flow-Through Shares, the incurring of CEE, and for general corporate purposes. See "*Use of Proceeds*". There may be circumstances that are not known to the Corporation at this time where reallocations of net proceeds from this Offering may be advisable for business reasons that management believes are in the Corporation’s best interests. Although management of the Corporation considers its assumptions to be reasonable based on information currently available, they may prove to be incorrect. By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific), some of which are beyond the control of the Corporation and risks that forward-looking statements will not be achieved. Some of the risks that could affect the Corporation's future results and could cause results to differ materially from those expressed in the Corporation's forward looking statements include:

- the impact of competition;
- compliance with and liabilities under environmental laws and regulations;
- the uncertainties of estimates by the Corporation's independent consultants with respect to the Corporation's reserves;
- the volatility of crude oil, natural gas and natural gas liquids prices;
- changes in the foreign exchange rate;
- general economic conditions in the countries in which the Corporation operates or its products are sold;
- changes to royalty regimes and government regulations regarding royalty payments;
- risks associated with developing, producing, processing, storing and transporting oil and natural gas;
- geological, technical, drilling and processing problems;
- the Corporation's ability to hire and retain staff;
- imprecision in estimating capital expenditures and operating expenses;
- imprecision in estimating the timing, costs and levels of production and drilling;
- imprecision in estimates of future production capacity;
- potential delays or changes in plans with respect to exploration and development projects or capital expenditures;
- inability to acquire assets for prices within the Corporation's parameters;
- inability to effectively optimize or exploit acquired assets;
- changes to regulations and legislation applicable to the Corporation;
- general economic and business conditions;
- unavailability of required equipment and services; and
- the other factors discussed under "*Risk Factors*" in this short form prospectus,

as well as additional risk factors set forth under "*Risk Factors*" in the Corporation's AIF and under "*Business Risks and Uncertainties*" in the Corporation's Interim MD&A, each of which is incorporated by reference in this short form prospectus.

Undue reliance should not be placed on forward-looking statements which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will in fact be realized. Actual results will differ, and the difference may be material and adverse to the Corporation. Forward-looking statements are made as of the date hereof and, except as required by applicable securities legislation, the Corporation does not undertake any obligation to update publicly or to revise any forward-looking statements, whether as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer and Corporate Secretary of the Corporation at 300, 840 - 6th Avenue SW, Calgary, Alberta T2P 3E5, telephone (403) 537-5590. Copies of the documents incorporated herein by reference are also available at www.sedar.com.

The following documents of the Corporation, filed with the various provincial securities commissions or similar authorities in Canada, are specifically incorporated into and form an integral part of this short form prospectus:

(a) Schedule "B" to the prospectus of the Corporation dated December 16, 2010 containing the audited financial statements of the Corporation together with the auditors' report thereon and the notes thereto for the period from incorporation on August 5, 2009 to September 30, 2010;

(b) the material change report dated January 26, 2011, relating to the closing of the IPO;

(c) the restated unaudited interim financial statements of the Corporation together with the notes thereto as at and for the three and nine months ended June 30, 2011 and 2010 and filed December 12, 2011;

(d) the amended material change report dated May 16, 2011, relating to the announcement of the Corporation's Qualifying Transaction;

(e) the information circular and proxy statement dated May 27, 2011 for the special meeting of the Corporation held on June 27, 2011;

(f) the material change report dated July 7, 2011 in respect of the closing of the Corporation's Qualifying Transaction;

(g) the Interim MD&A;

(h) the BAR;

(i) the AIF;

(j) the material change report dated September 30, 2011 in respect of the entering into of a letter of intent with a private Alberta-based oil and gas company; and

(k) the material change report dated December 9, 2011 in respect of reserves information relating to certain oil and gas properties in which Carmen has a right to earn working interests.

Any documents of the type required by National Instrument 44-101 to be incorporated by reference in a short form prospectus including any material change reports (excluding confidential reports), comparative interim financial statements, comparative annual financial statements and, if applicable, the auditors' report thereon, management's discussion and analysis of financial condition and results of operations, information circulars, annual information forms and business acquisition reports filed by the Corporation with the securities commissions or similar authorities in the provinces of Canada subsequent to the date of this short form prospectus and prior to the termination of this distribution shall be deemed to be incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

CARMEN ENERGY INC.

Incorporation and Organization

The Corporation was incorporated pursuant to the provisions the *Business Corporations Act* (Alberta) on August 5, 2009. On August 16, 2010, the Corporation amended its articles of incorporation to remove the private company and share transfer restrictions. Upon filing a capital pool company prospectus dated December 16, 2010, Carmen became a reporting issuer in the provinces of British Columbia, Alberta, Ontario and Nova Scotia. Carmen closed the IPO on January 14, 2011 and its Common Shares began trading on the TSXV on January 18, 2011 under the symbol "CEI.P".

Carmen was listed on the TSXV as a Capital Pool Company (as such term is defined in the policies of the TSXV) until July 4, 2011 when the TSXV issued its final bulletin accepting the Qualifying Transaction of the Corporation and the trading symbol for the Common Shares was changed to "CEI". Following the completion of the Qualifying Transaction the Corporation ceased to be a Capital Pool Company and began to operate as a junior oil and gas company. For more information on the development of the business of Carmen and a description of Carmen's interests see the disclosure provided in the AIF and the BAR which are incorporated by reference herein.

Carmen's head office located at 300, 840 – 6th Avenue S.W. Calgary, Alberta T2P 3E5. The registered office of the Corporation is located at 2400, 525 – 8th Avenue S.W., Calgary, Alberta T2P 1G1. The Corporation does not have any subsidiaries.

Summary Description of the Business

Carmen is a junior oil and gas exploration, development and production company based in Calgary, Alberta. The Corporation's main areas of interest are in the Ferrybank, Jumpbush, Hamburg, Sylvan Lake and Viking-Kinsella areas of Alberta. Additional information respecting the Corporation, its organizational structure, history, assets and its reserves and resources and other oil and gas information is set forth in the AIF and the BAR which are incorporated by reference herein.

RECENT DEVELOPMENTS

Amended Hamburg Farmin

On December 9, 2011, Carmen announced that it had entered into an amending agreement with the farmors to amend the terms of the farmin agreement relating to the Hamburg lands increasing the potential working interest to Carmen and eliminating the convertible term of the overriding royalty (the "**Amended Farmin**"). Pursuant to the Amended Farmin, Carmen now has the right to earn a 100% working interest in four sections of land in the Hamburg area of Alberta. To earn this working interest in the first two sections of land, Carmen is required to contribute 100% of the costs to drill to the contract depth, abandon, cap or complete, equip and tie-in the first option well. The Amended Farmin provides that the first option well is to be spudded on or before February 15, 2012. The working interest is subject to a non-convertible overriding royalty calculated on 100% of production of 1/15 (min. 5/10% and max 15/20%) on crude and 15/20% on all other petroleum substances.

Subsequent to fulfilling its obligations for the first option well, Carmen shall have the right under the Amended Farmin to elect, within 90 days from the rig release of the first option well, to drill the second option well to earn a 100% working interest in the remaining two sections of land. The Amended Farmin provides that the second option well must be spudded within 9 months of Carmen's election to drill same. The earning provisions of the second option block are the same as for the first option well and Carmen's working interest in all four sections of Hamburg land shall be subject to the overriding royalty discussed above.

Sylvan Lake Participations

On September 8, 2011, Carmen entered into two participation agreements with an Alberta based public oil and gas company ("**Farmee**") (each a "**Participation Agreement**") wherein Carmen agreed to pay, with respect to each

Participation Agreement, 25% of costs associated with the drilling, casing and completing or abandoning of a well on the lands in each Participation Agreement in order to earn 25% of Farmee's interest in such well and the lands in each Participation Agreement.

The Farmee's right to earn in the lands arose pursuant to two farmout agreements dated June 6, 2011. Under the first farmout agreement, the farmor granted to the Farmee, the right to earn, by drilling, completing and testing a well at 12-22-038-04W5, to contract depth and complying with other terms of the agreement, an undivided 100% working interest in the North half of Section 22 subject to the reservation of a convertible overriding royalty of 1/23.8365 (5-10%) on oil and 10% on other substances and convertible to a 35% working interest within ten days of rig release. Carmen understands that the rig has been released but Carmen has not yet been advised if the farmor will elect to convert. In the case that the farmor elects to convert Carmen would have a right to a 16.25% interest in the well.

Under the second farmout agreement, the farmor granted to the Farmee, the right to earn, by drilling, completing and testing a well at 102/14-07-0387W5, to contract depth and complying with other terms of the agreement, an undivided 100% working interest in the section subject to the reservation of a convertible overriding royalty of (5-12%) on oil and 12% on other substances and convertible to a 40% working interest within ten days of rig release. The farmor has elected to convert to a 40% working interest. Due to the farmor's election, under the Participation Agreement, Carmen has the right to a 15% working interest in this well.

Viking-Kinsella Farmin

On September 19, 2011 Carmen announced that it entered into a non-binding letter of intent to acquire all the issued and outstanding shares of a Calgary based private company engaged in the exploitation and development of gas and oil reserves in Alberta and Saskatchewan ("**PrivateCo**"). On November 17, 2011, Carmen announced that it had terminated its obligations under the letter of intent as the parties were unable to reach a mutually acceptable definitive acquisition agreement within the timelines specified in the letter of intent.

On October 6, 2011 the Corporation announced that it executed a farmin agreement with PrivateCo to drill a test well in Viking-Kinsella area of Alberta. Under the terms of such farmin agreement, Carmen has agreed to incur 100% of the costs to drill a test well to the contract depth, and complete or abandon the test well to earn a 60% working interest in the test well and, in the event the test well is claimed as an oil well, the East half of the section and, in the case the test well is a gas well, the entire section. Despite the termination of the letter of intent noted above, the farmin agreement with PrivateCo remains in effect.

Reserves Information– Sylvan Lake and Viking-Kinsella Farmins

On December 2, 2011 the Corporation announced the completion of a report by InSite relating to the lands subject to the farmin agreements for the Sylvan Lake and Viking-Kinsella lands. The report, entitled "*Evaluation of the Oil and Gas Reserves in the Sylvan Lake and Viking-Kinsella Areas*" (the "**InSite Sylvan Lake/Viking-Kinsella Report**"), is an estimate of the oil, natural gas and natural gas liquids reserves associated with the 102/14-7-38-3w5 well on the Sylvan Lake properties and the Hz16-17-49-12w4 well on the Viking-Kinsella properties in which Carmen has a right to earn a working interest. The InSite Sylvan Lake/Viking-Kinsella Report has an effective date of December 1, 2011 and was prepared in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook ("**COGE Handbook**"). The following is a summary of data contained in the InSite Sylvan Lake/Viking-Kinsella Report of estimated reserves as evaluated in the InSite Sylvan Lake/Viking-Kinsella Report with regards to Carmen's average working interest in the above mentioned two wells, which working interest will not be earned by Carmen until such time as Carmen has satisfied all its obligations under the respective farmin agreements described above. The InSite Sylvan Lake/Viking Report does not include an estimate of the reserves associated with the second well 12-22-38-4w5 on the Sylan Lake property as such well remains under evaluation and will require additional work before sufficient information is available for reserves to be assigned.

All evaluations of future net revenue are after the deduction of future, royalties, development costs, production costs and well abandonment costs but before consideration of indirect costs such as administrative, overhead and other miscellaneous expenses. The estimated future net revenue contained in the following tables do not represent the fair market value of the reserves in which Carmen has a right to

earn an interest. There is no assurance that the forecast price and cost assumptions contained in the InSite Sylvan Lake/Viking-Kinsella Report will be attained and variations could be material. Other assumptions and qualifications relating to costs and other matters are summarized in the notes to or following the tables below. Readers should review the definitions and information under the heading "*Definitions and Notes to Reserves Data Tables*" below in conjunction with the following tables and notes. The recovery and reserve estimates on the properties described herein are estimates only. The actual reserves on such properties may be greater or less than those calculated. See "*Risk Factors*" herein and in the AIF.

Reserves Data (Forecast Prices and Costs)

SUMMARY OF OIL AND NATURAL GAS RESERVES AND
NET PRESENT VALUES OF FUTURE NET REVENUE AS OF DECEMBER 1, 2011
FORECAST PRICES AND COSTS (SEPTEMBER 30, 2011)
RESERVES

	LIGHT AND MEDIUM OIL		**HEAVY OIL**		**NATURAL GAS**		**NATURAL GAS LIQUIDS**		**SULPHUR**	
RESERVES CATEGORY	**Gross (Mbbls)**	**Net (Mbbls)**	**Gross (Mbbls)**	**Net (Mbbls)**	**Gross (MMcf)**	**Net (MMcf)**	**Gross (Mbbls)**	**Net (Mbbls)**	**Gross (LT)**	**Net (LT)**
PROVED:										
Developed Producing	4.9	4.5	-	-	126.7	115.9	4.9	3.8	114.1	97.9
Developed Non-Producing	-	-	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-	-	-
TOTAL PROVED	4.9	4.5	-	-	126.7	115.9	4.9	3.8	114.1	97.9
PROBABLE	63.8	54.4	-	-	168.6	155.0	3.4	2.5	45.6	38.1
TOTAL PROVED PLUS PROBABLE	68.7	58.9	-	-	295.3	270.9	8.4	6.4	159.7	136.0

The estimated net present value of future net revenue before income taxes associated with the Sylvan Lake and Viking-Kinsella reserves effective December 1, 2011 and based on published InSite future price forecast as of September 30, 2011 are summarized in the following table:

	NET PRESENT VALUES OF FUTURE NET REVENUE BEFORE INCOME TAXES DISCOUNTED AT (%/year)					**UNIT VALUE BEFORE INCOME TAXES DISCOUNTED AT 10%(1)**
RESERVES CATEGORY	**0% ($000s)**	**5% ($000s)**	**10% ($000s)**	**15% ($000s)**	**20% ($000s)**	**($/BOE)**
PROVED:						
Developed Producing	416.7	351.6	301.2	261.6	230.2	10.91
Developed Non-Producing	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-
TOTAL PROVED	416.7	351.6	301.2	261.6	230.2	10.91
PROBABLE	4,361.5	3,254.8	2,586.3	2,147.2	1,838.5	31.23
TOTAL PROVED PLUS PROBABLE	4,778.2	3,606.5	2,887.4	2,408.8	2,068.7	26.15

Note:

(1) Unit values are based on net reserve volumes.

Definitions and Notes to Reserves Data Tables

In the tables set forth above in "*Reserves Data (Forecast Prices and Costs)*", the following definitions and other notes are applicable:

"**Reserves**" are the estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates.

"**Proved reserves**" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. At least a 90% probability that the quantities actually recovered will equal or exceed the estimated proved reserves is the targeted level of certainty.

"**Probable reserves**" are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. At least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves is the targeted level of certainty.

"**Proved developed reserves**" are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

"**Developed producing reserves**" are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

"**Developed non producing reserves**" are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.

"**Undeveloped reserves**" are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

"**Gross**" means: (i) in relation to Carmen's interest in production and reserves, its "company gross reserves", which are Carmen's interest (operating and non operating) share before deduction of royalties and without including any royalty interest of Carmen; (ii) in relation to wells, the total number of wells in which Carmen has an interest; and (iii) in relation to properties, the total area of properties in which Carmen has an interest.

"**Net**" means: (a) in relation to Carmen's interest in production and reserves, Carmen's working interest (operating and non operating) share after deduction of royalty obligations, plus Carmen's royalty interests in production or reserves; (b) in relation to wells, the number of wells obtained by aggregating Carmen's working interest in each of its gross wells; and (c) in relation to Carmen's interest in a property, the total area in which Carmen has an interest multiplied by the working interest owned by Carmen.

Pricing Assumptions

The forecast cost and price assumptions in this section assume increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. Crude oil and natural gas benchmark reference pricing, inflation and exchange rates utilized in the InSite Sylvan Lake/Viking-Kinsella Report were as follows:

SUMMARY OF PRICING ASSUMPTIONS
AS OF SEPTEMBER 30, 2011 FORECAST PRICES AND COSTS (1)(2)

	OIL		NATURAL GAS	NATURAL GAS LIQUIDS				SULPHUR	
	WTI Cushing Oklahoma	Edmonton Par Price 40° API	AECO Gas Price	Condensate	Edmonton Butane	Edmonton Propane	Edmonton Ethane		EXCHANGE RATE[3]
Year	($US/Bbl)	($Cdn/Bbl)	($Cdn/MMBtu)	($Cdn/Bbl)	($Cdn/Bbl)	($Cdn/Bbl)	($Cdn/Bbl)	($/LT)	($US/$Cdn)
2011	85.00	84.73	3.83	88.97	67.79	50.84	11.50	65.00	0.980
2012	95.00	92.50	4.30	95.28	74.00	55.50	13.01	66.30	1.000
2013	100.00	97.50	5.00	100.43	78.00	58.50	15.27	67.63	1.000
2014	101.00	98.45	5.60	101.40	78.76	59.07	17.20	68.98	1.000
2015	102.00	99.40	6.00	102.38	79.52	59.64	18.49	70.36	1.000
2016	104.00	101.35	6.35	104.39	81.08	60.81	19.61	71.77	1.000
2017	106.00	103.29	6.59	106.39	82.64	61.98	20.37	73.20	1.000
2018	108.12	105.36	7.07	108.52	84.29	63.22	21.94	74.66	1.000
2019	110.28	107.47	7.22	110.69	85.97	64.48	22.38	76.16	1.000
2020	112.49	109.62	7.36	112.90	87.69	65.77	22.83	77.68	1.000
2021	114.74	111.81	7.51	115.16	89.45	67.09	23.30	79.23	1.000
2022	117.03	114.04	7.66	117.47	91.24	68.43	23.77	80.82	1.000
2023	119.37	116.33	7.81	119.82	93.06	69.80	24.25	82.44	1.000
2024	121.76	118.65	7.97	122.21	94.92	71.19	24.74	84.08	1.000
2025	124.20	121.03	8.13	124.66	96.82	72.62	25.24	85.77	1.000
2026	126.68	123.45	8.29	127.15	98.76	74.07	25.75	87.48	1.000
There-after	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	1.000

Notes:

(1) As at September 30, 2011.
(2) Inflation rate for costs escalated 2% per year from 2011.
(3) Exchange rate used to generate the benchmark reference prices in this table.

Potential Acquisitions and Financings

The Corporation continues to evaluate potential corporate and asset acquisitions in the oil and gas sector. The Corporation is typically in the process of evaluating several potential acquisitions at any one time which individually or together could be material. As of the date hereof, the Corporation has not reached agreement on the price or terms of any potential material acquisitions. The Corporation cannot predict whether any current or future opportunities will result in one or more acquisitions for the Corporation. In addition to the Offering, the Corporation expects to complete financings of equity or debt (which may be convertible into equity) in the future to fund the Corporation's capital programs, ongoing operations or potential acquisitions, the Corporation's operations and capital expenditures and repayment of indebtedness.

DESCRIPTION OF CAPITAL STRUCTURE

The following is a description of the rights, privileges, restrictions and conditions attaching to Carmen's share capital.

Common Shares

The authorized share capital of the Corporation consists of an unlimited number of Common Shares. The Common Shares are the only issued and outstanding voting securities of the Corporation. The Common Shares carry the following rights: (i) to vote at any meetings of Carmen Shareholders; (ii) to receive any dividends declared by Carmen; and (iii) to receive the remaining property of Carmen upon dissolution.

CAPITALIZATION OF THE CORPORATION

The following table sets forth the consolidated capitalization of the Corporation as at June 30, 2011, before giving effect to the Offering and as at November 30, 2011, both before and after giving effect to the Offering. There have been no material changes in the capitalization of the Corporation since November 30, 2011.

	As at June 30, 2011 before giving effect to the Offering and Concurrent Private Placement (Unaudited)	**As at November 30, 2011 before giving effect to the Offering and Concurrent Private Placement[1] (Unaudited)**	**As at November 30, 2011 after giving effect to the Offering and Concurrent Private Placement[1] (Unaudited)**
Common Shares[2][3][4]	$1,623,499 (29,699,500 shares)	$1,667,913 (29,970,650 shares)	$5,817,261 (56,299,153 shares)
Warrants[3][4]	$2,899,000 (10,000,000 Warrants)	$2,899,000 (10,000,000 Warrants)	$4,789,652 (17,408,696 Warrants)

Notes:

(1) Based on the issuance of: (i) 13,043,478 Units for gross proceeds of approximately $3,000,000; (ii) 11,111,111 Flow-Through Shares gross proceeds of approximately $3,000,000; and (iii) 2,173,914 Placement Units for gross proceeds of approximately $500,000, less the Agents' Fee of $360,000 and estimated expenses of the Offering and Concurrent Private Placement of $350,000 for net proceeds of approximately $5,790,000 (values are subject to rounding).

(2) See "*Description of Share Capital*".

(3) Excludes: (i) 2,800,000 Common Shares issuable upon the exercise of stock options outstanding as of November 30, 2011 granted pursuant to the Corporation's stock option plan; (ii) 28,850 Common Shares issuable upon the exercise of outstanding agent's options issued by the Corporation on January 14, 2011 in connection with the Corporation's IPO exercisable at a price of $0.10 for a period of two years from the date of issuance; and (iii) 980,000 units issuable pursuant to agent's options issued by the Corporation on June 27, 2011 in connection with the Corporation's Qualifying Transaction, where each unit is exercisable into one Common Share and one half of one warrant at an exercise price of $0.25 for a period of two years from the date of issuance, the warrants issuable upon exercise of the units are exercisable for one Common Share at an exercise price of $0.40 per Common Share and, regardless of when the agent's option is exercised, the warrants issuable thereunder expire 18 months from June 27, 2011. See "*Prior Sales*"

(4) The Corporation intends to allocate $0.22 of the issue price of each Unit as consideration for the issue of Common Share and $0.01 for the issue of each Warrant. See "*Certain Canadian Federal Income Tax Considerations*".

PRIOR SALES

The following table summarizes the issuances by Carmen of Common Shares and securities convertible into Common Shares in the 12 month period prior to the date of this short form prospectus.

Date	**Securities**	**Number of Securities**	**Price per Security ($)**
January 14, 2011	Common Shares	3,000,000	0.10
January 14, 2011[1]	agent options	300,000	0.10
January 14, 2011[1]	options	725,000	0.10
June 27, 2011	Common Shares	20,000,000	0.25
June 27, 2011[1]	warrants	10,000,000	0.40
June 27 2011[1][2]	agent options	980,000	0.25
June 27, 2011[1]	options	1,975,000	0.25
July 6, 2011[3]	Common Shares	40,000	0.10
August 4, 2011[3]	Common Shares	190,000	0.10
September 22, 2011[3]	Common Shares	25,000	0.10
September 26, 2011[3]	Common Shares	16,150	0.10
November 24, 2011	options	100,000	0.29

Notes:

(1) Price per security represents the exercise price of convertible security.

(2) Represents options issued to the agent in connection with the Corporation's Qualifying Transaction. The options are exercisable for units of the Corporation where each unit is comprised of one Common Share and one half of one

common share purchase warrant. The warrants are exercisable for Common Shares for a period of 18 months from the date of issue for a price of $0.40 per Common Share.

(3) Represents Common Shares issued upon the exercise of agent options issued to the agent in connection with the Corporation's IPO.

PRICE RANGE AND TRADING VOLUME OF THE COMMON SHARES

The outstanding Common Shares are currently traded on the TSXV under the trading symbol "CEI". The following table sets forth the price range and trading volume of the Common Shares as reported by the TSXV for the periods indicated.

Period	High ($)	Low ($)	Trading Volume
2011			
January [(1)]	0.32	0.20	244,400
February	0.39	0.28	352,685
March	0.35	0.30	84,000
April [(2)]	0.29	0.29	25,000
May [(2)]	0.40	0.26	664,588
June	0.55	0.35	335,200
July	0.62	0.47	130,900
August	0.60	0.45	183,237
September	0.60	0.45	247,500
October	0.49	0.28	791,500
November	0.31	0.24	941,886
December (1 - 9)	0.27	0.22	595,075

Notes:

(1) The Common Shares were listed for trading on the TSXV on January 14, 2011.

(2) Trading in the Common Shares was halted on April 7, 2011 pending the announcement of the Qualifying Transaction; and resumed on May 5, 2011 following the receipt and review by the TSXV of acceptable preliminary documentation related to the Qualifying Transaction.

On December 9, 2011, the last trading day prior to the date of this short form prospectus, the closing price of the Common Shares on the TSXV was $0.25.

DETAILS OF THE OFFERING

The Offering consists of up to 13,043,478 Units at a price of $0.23 per Unit and up to 11,111,111 Flow-Through Shares at a price of $0.27 per Flow-Through Share. Each Unit will be comprised of one Common Share and one half of one Warrant. See "*Description of Share Capital*" for the terms of the Common Shares.

Terms of Warrants

The Warrants will be created and issued by the Corporation pursuant to the Warrant Indenture to be entered into between the Corporation and the Warrant Agent, on the Closing Date. The Corporation will appoint the principal transfer offices of the Warrant Agent in Calgary, Alberta as the location at which Warrants may be surrendered for exercise or transfer.

The following summarizes certain provisions of the Warrant Indenture; a copy of the Warrant Indenture will be filed and available on the Corporation's SEDAR profile at www.sedar.com following the Closing Date.

Each Warrant will entitle the holder thereof to purchase one Common Share at a price of $0.40 any time prior to the Warrant Expiry Time, after which time the Warrants will expire and become null and void. Under the Warrant Indenture, the Corporation will be entitled to purchase in the market, by private contract or otherwise, all or any of the Warrants then outstanding and any Warrants so purchased will be cancelled. Under the Warrant Indenture, the Corporation will have the ability to issue further common share purchase warrants, in addition to the Warrants already outstanding and those to be issued pursuant to the Offering, without consent of the holders of the Warrants.

The Warrant Indenture will provide for adjustment in the number of Common Shares issuable upon the exercise of the Warrants and/or the exercise price per Common Share upon the occurrence of certain events, including:

- the issuance of Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all of the holders of the Common Shares as a stock dividend or other distribution;
- the subdivision, redivision or change of the Common Shares into a greater number of shares;
- the reduction, combination or consolidation of the Common Shares into a lesser number of shares;
- the issuance to all or substantially all of the holders of the Common Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase Common Shares, or securities exchangeable for or convertible into Common Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the "current market price", as defined in the Warrant Indenture, for the Common Shares on such record date; and
- the issuance or distribution to all or substantially all of the holders of the Common Shares of shares of any class other than the Common Shares, rights, options or warrants to acquire Common Shares or securities exchangeable or convertible into Common Shares, evidences of indebtedness or cash, securities or any property or other assets.

The Warrant Indenture will provide for adjustment in the class and/or number of securities issuable upon the exercise of the Warrants and/or exercise price per security in the event of the following additional events: (i) reclassifications of the Common Shares; (ii) consolidations, amalgamations, plans of arrangement or mergers of the Corporation with or into another entity (other than consolidations, amalgamations, plans of arrangement or mergers that do not result in any reclassification of the Common Shares or a change of the Common Shares into other shares); or (iii) the transfer (other than to one of the Corporation's subsidiaries) of the Corporation's undertaking or assets as an entirety or substantially as an entirety to another Corporation or other entity. No adjustment in the exercise price or the number of Common Shares issuable upon the exercise of a Warrant will be required to be made unless the cumulative effect of such adjustment or adjustments would change the exercise price by at least 1% or the number of Common Shares issuable upon exercise of a Warrant by at least 0.1 of a Common Share.

The Corporation will also covenant in the Warrant Indenture that, during the period in which the Warrants are exercisable, it will give notice to the holders of Warrants of certain stated events, including events that would result in the adjustment to the exercise price for the Warrants or the number of Common Shares issuable upon exercise of the Warrants, at least 21 days prior to the record date or effective date, as the case may be, of such event.

No fractional Common Shares will be issuable to any holder of Warrants upon the exercise thereof, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Warrants do not have any voting or pre-emptive rights or any other rights of a holder of Common Shares.

From time to time, the Warrant Agent and the Corporation, without the consent of the holders of Warrants, may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interest of the holders of the Warrants may only be made by "extraordinary resolution", which is defined in the Warrant Indenture as a resolution either: (i) passed at a meeting of the holders of Warrants at which there are holders of Warrants present in person or represented by proxy representing at least 25% of the aggregate number of the then outstanding Warrants and passed by the affirmative vote of holders of Warrants representing not less than two-thirds of the aggregate number of all the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution; or (ii) adopted by an instrument in writing signed by the holders or Warrants representing not less than two-thirds of the number of all the then outstanding Warrants.

The foregoing is a summary of the material provision of the Warrant Indenture, but is not, and does not purport to be, a complete summary and is qualified in its entirety by reference to the provisions of the Warrant Indenture.

There is no market through which the Warrants may be sold and purchasers may not be able to resell the Warrants comprising part of the Units purchased under this short form prospectus. This may affect the

pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants, and the extent of issuer regulation. See "*Risk Factors*". The Corporation does not intend to apply to list the Warrants distributed under this short form prospectus on the TSXV or any other stock exchange.

Flow-Through Shares

The Flow-Through Shares will be Common Shares issued as "flow-through shares" as defined under the Tax Act. The Corporation will incur on or before December 31, 2012, and renounce to each subscriber of Flow-Through Shares effective on or before December 31, 2011, Qualifying Expenditures in an amount equal to the aggregate purchase price for Flow-Through Shares paid by such subscriber. See "*Certain Canadian Federal Income Tax Considerations*".

Subscriptions for Flow-Through Shares will be made pursuant to one or more subscription and renunciation agreements (the "**Subscription Agreements**") to be made between the Corporation and the Agent for, on behalf of, and in the name of all subscribers of Flow-Through Shares. **Subscribers who place an order to purchase Flow-Through Shares with the Agent will be deemed to have authorized the Agent to execute and deliver, on their behalf, the Subscription Agreements.**

Pursuant to the Subscription Agreements, the Corporation will covenant and agree: (i) to incur on or before December 31, 2012 and renounce to the subscriber effective on or before December 31, 2011, Qualifying Expenditures in an amount equal to the aggregate purchase price for Flow-Through Shares paid by such subscriber; and (ii) that if the Corporation does not renounce to such subscriber, effective on or before December 31, 2011, Qualifying Expenditures equal to such amount, or if there is a reduction in such amount renounced pursuant to the provisions of the Tax Act, the Corporation shall indemnify the subscriber for an amount equal to the amount of any tax payable or that may become payable under the Tax Act (and under any corresponding provincial legislation) by the subscriber as a consequence of such failure or reduction. The Subscription Agreements will contain additional representations, warranties, covenants and agreements by the Corporation in favour of the subscriber of Flow-Through Shares which are consistent with and supplement the Corporation's obligations as described in this short form prospectus.

The Subscription Agreements will also provide representations, warranties and agreements of the subscriber, and by its purchase of Flow-Through Shares each subscriber of Flow-Through Shares offered under this short form prospectus will be deemed to have represented, warranted and agreed, for the benefit of the Corporation and the Agent that is signatory thereto that:

(a) the Subscription Agreement is subject to acceptance by the Corporation and is effective only upon such acceptance;

(b) the subscriber has received and reviewed a copy of this short form prospectus;

(c) except as provided in the Subscription Agreement or as otherwise set out herein, the subscriber waives any right it may have to any potential incentive grants, credits or similar or like payments or benefits which accrue as a result of the operations relating to Qualifying Expenditures and acknowledges that all such grants, credits, payments or benefits accrue to the benefit of the Corporation;

(d) neither the subscriber nor any beneficial purchaser for whom it is acting is a non-resident of Canada for the purposes of the Tax Act;

(e) the subscriber, if an individual, is of the full age of majority and is otherwise legally competent to enter into the Subscription Agreement;

(f) the subscriber, if other than an individual, has the necessary capacity and authority to enter into the Subscription Agreement and has taken all necessary action in respect thereof;

(g) neither the subscriber nor any beneficial purchaser for whom it is acting has entered into and will not knowingly enter into any agreement or arrangement to which the Corporation is not a party which will cause the Flow-Through Shares to become "prescribed shares" for the purposes of the Tax Act;

(h) if the subscriber or any beneficial purchaser for whom it is acting is a trust, corporation or partnership, it does not and will not knowingly have, in respect of a renunciation of Qualifying Expenditures hereunder, a "prohibited relationship" with the Corporation, within the meaning of subsection 66(12.671) of the Tax Act;

(i) the subscriber, and any beneficial purchaser for whom it is acting deals, and until January 1, 2013 will continue to deal, at arm’s length with the Corporation for the purposes of the Tax Act;

(j) the liability of the Corporation to renounce Qualifying Expenditures is limited to the extent specifically stated herein and in the Subscription Agreement;

(k) the subscriber has such knowledge, or has received advice, in financial and business affairs as to be capable of evaluating the merits and risks of the investment and the subscriber is able to bear the economic risk of loss of its entire investment;

(l) if required by applicable securities legislation, policy or order of a securities commission or other regulatory authority, the subscriber will execute, deliver, file and otherwise assist the Corporation in filing such reports, undertakings and other documents with respect to the issue of the Flow-Through Shares;

(m) the entering into of the Subscription Agreement and the transactions contemplated thereby will not result in a violation of any of the terms and provisions of any law applicable to the subscriber, or, if the subscriber is not a natural person, any of its constating documents, or of any agreement to which the subscriber is a party or by which it is bound;

(n) the subscriber is aware that the Flow-Through Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state and that these securities may not be offered or sold in the United States;

(o) the Flow-Through Shares have not been offered to the subscriber in the United States, and the individuals making the order to purchase the Flow-Through Shares and executing and delivering the Subscription Agreement on behalf of the subscriber were not in the United States when the order was placed and the Subscription Agreement was executed and delivered;

(p) the subscriber is not in the United States and is not acquiring the Flow-Through Shares on behalf of, or for the account or benefit of, a person in the United States;

(q) the covenants, representations and warranties of the subscriber stated or referred to in the Subscription Agreement shall be true and correct both as of the execution of the Subscription Agreement and as of the Closing Date as if repeated at such time, and will survive the completion of the issuance of the Flow-Through Shares and the completion of the transactions contemplated under the Subscription Agreement and the Agency Agreement;

(r) the subscriber acknowledges that it has been encouraged to obtain independent legal, income tax and investment advice with respect to its subscription for the Flow-Through Shares and accordingly, has had the opportunity to acquire an understanding of the meanings of all terms contained in the Subscription Agreement relevant to the subscriber for the purposes of giving representations, warranties and covenants hereunder; and

(s) no person has made to the subscriber any written or oral representations:

    (i) that any person will resell or repurchase the Flow-Through Shares;

(ii) that any person will refund the purchase price of the Flow-Through Shares; or

(iii) as to the future price or value of the Flow-Through Shares.

Notwithstanding the foregoing, the Corporation may enter into one or more Subscription Agreement for Flow-Through Shares on such other terms as may be agreed to by the Corporation and the applicable subscriber.

USE OF PROCEEDS

The maximum net proceeds to the Corporation from the sale of the Offered Securities hereunder, together with the net proceeds from the sale of the Placement Units, are estimated to be approximately $5.8 million after deducting the fees of $360,000 payable to the Agent and the estimated expenses of the Offering and the Concurrent Private Placement of $350,000. See "*Plan of Distribution*" and "*Concurrent Private Placement*".

The net proceeds of the Offering and Concurrent Private Placement will be used to fund part of Carmen's 2012 capital program. Carmen anticipates that its 2012 capital program will include fulfilling its drilling obligations under the Amended Farmin concerning the Hamburg property and the farmin concerning the Ferrybank properties, a development program on the Viking-Kinsella and Jumpbush properties and an acquisition of seismic and potential follow-up drilling in the Corporation's Ferrybank area. The speed at which these objectives are completed by the Corporation will depend on the amount of proceeds raised pursuant to the Offering and the Concurrent Private Placement and cash flow from Carmen's operations. See "*Risk Factors*".

If the net proceeds of the Offering and Concurrent Private Placement are greater than $4 million, Carmen will allocate all or the majority of the net proceeds towards its activities in the Hamburg property. Carmen anticipates that $2.7 million will be required to drill to contract depth in satisfaction of its drilling commitments under the Amended Farmin relating to the Hamburg property. See "*Recent Developments – Amended Hamburg Farmin*". If management determines the Hamburg option well to be economic for Carmen, a further $2.8 million will be allocated to the Hamburg properties to case, complete, test, tie-in and equip the first option well. If the Hamburg well is economic, the main focus of Carmen's 2012 capital program will be on the Hamburg properties. Management will review its obligations and plans for the Viking-Kinsella, Jumpbush and Ferrybank development programs. Timing for the development of such areas will be dependent on cash flow, access to additional financing and various other market concerns. See "*Risk Factors*".

In the event that the Hamburg test well is determined by management to be uneconomic, the Corporation shall reallocate all remaining available funds to further the development program on the Viking-Kinsella, Jumpbush and Ferrybank properties. Carmen currently anticipates that the cost of such alternative initiatives will be approximately $5.5 million in the aggregate. See the AIF and BAR, both incorporated herein by reference, for more information on the Jumpbush and Ferrybank properties.

If the net proceeds of the Offering and the Concurrent Private Placement are less than $4 million in aggregate, the Corporation will be unable to meet its obligations under the Amended Farmin and the Corporation shall allocate all of the net proceeds to drilling activities in the Viking-Kinsella, Ferrybank and Jumpbush areas. If net proceeds of the Offering and Concurrent Private Placement are less than $2 million in the aggregate the Corporation shall allocate the net proceeds exclusively to drilling activities in the Jumpbush and Ferrybank areas.

Other than Carmen's drilling obligations on the Hamburg property (see "*Recent Developments - Amended Hamburg Farmin*"), Carmen is required to spud a test well on the Ferrybank properties by June 1, 2012. Carmen anticipates that the cost to satisfy this commitment will be approximately $125,000. Should the net proceeds of the Offering and the Concurrent Private Placement be minimal or null, the Corporation anticipates that when supplemented with cash flow from its operations it will have sufficient funds to bring its current development wells in the Viking-Kinsella and Sylvan Lake areas (see "*Recent Developments – Sylvan Lake Participations*" and "*Recent Developments – Viking-Kinsella Farmin*") on production, meet its drilling obligations in the Ferrybank area within the timeline for doing so and continue operations for the remainder of the 2012 fiscal year. See "*Note Regarding Forward Looking Statements*" and "*Risk Factors*".

The objective of Carmen's 2012 capital program is to develop its properties in order to establish cash flow through production of oil, natural gas and natural gas liquids. The use of the net proceeds by the Corporation to fund a portion of its 2012 capital program is consistent with the Corporation's stated business objectives. There is no particular significant event or milestone that must occur for the Corporation's objectives to be accomplished. It is possible that no proceeds will be raised pursuant to the Offering or the Concurrent Private Placement. See "*Plan of Distribution*", "*Concurrent Private Placement*" and "*Risk Factors*".

While the Corporation intends to use the net proceeds as stated, there may be circumstances that are not known at this time where a reallocation of the net proceeds may be advisable for business reasons that management believes are in the Corporation's best interests.

At this time, management of Carmen is not in a position to accurately estimate the cost of any of these initiatives, however it believes having ready access to capital resources, such as the net proceeds of the Offering and the Concurrent Private Placement, are a key component of the Corporation pursuing and developing its business plan. While Carmen believes that it has the skills and resources necessary to accomplish its stated business objectives and strategic goals, participation in the exploration for and development and appraisal of oil and natural gas has a number of inherent risks. See "*Risk Factors*".

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement between the Corporation and the Agent, the Corporation has appointed the Agent and the Agent have agreed to offer on a commercially reasonable efforts agency basis, subject to prior sale and if, as and when issued by the Corporation in accordance with the Agency Agreement, up to 13,043,478 Units at a price of $0.23 per Unit and up to 11,111,111 Flow-Through Shares at a price of $0.27 per Flow-Through Share, for total gross proceeds of a up to approximately $6,000,000, collectively. The Offering is not subject to a minimum subscription. The price of the Units and Flow-Through Shares issued hereunder will be determined by negotiation between the Corporation and the Agent. While the Agent has agreed to use its commercially reasonable efforts to sell the Units and Flow-Through Shares, the Agent is not obligated to purchase any Units or Flow-Through Shares not sold.

Pursuant to the terms of the Agency Agreement, all subscription funds will be held in trust by the Agent until the applicable Closing Date. Closing of the Offering is expected to occur in one or more tranches provided however that the Closing Date of the Flow-Through Shares distributed hereunder shall occur on or prior to December 30, 2011. If the Closing Date of the Flow-Through Shares has not occurred on or prior to December 30, 2011 for any reason, including for not satisfying all of the closing conditions, the Agent will promptly return the proceeds of the subscriptions for Flow-Through Shares received, if any, to the proposed subscribers without interest or deduction unless such proposed subscribers have otherwise instructed the Agent. If no Closing Date has occurred within 90 days from the date hereof, all subscription proceeds held by the Agent will be returned to subscribers without interest or deduction unless such subscribers have otherwise instructed the Agent. There is no minimum subscription amount under the Offering and the Agent may close after only raising a small proportion of the Offering.

The obligations of the Agent under the Agency Agreement may be terminated at its discretion on the basis of its assessment of the state of the financial markets, its satisfaction with the results of its due diligence investigations and may also be terminated upon the occurrence of certain other stated events. The Agency Agreement also provides that the Corporation will indemnify the Agent and its directors, officers, agents, employees, affiliates and partners against certain liabilities and expenses. The Agent also reserves the right to allow selling group participation, in the normal course of brokerage business, to selling groups of other licensed brokerdealers, brokers or investment dealers, who may or may not be offered part of the Agent’s Fee.

The Agency Agreement provides that the Corporation shall pay the Agent the Agent's Fee equal to 6% of the total gross proceeds of the Offering, a corporate finance fee of $30,000 and that number of Agent's Options equal to 6% of the number Offered Securities sold. The terms of the Offering were determined by negotiation between the Corporation and the Agent.

In addition, the Agency Agreement provides that if the Offering is not completed as a result of the Corporation's decision to pursue an alternative business transaction within a period of six months from November 22, 2011, the

Corporation shall be required to pay the Agent an amount equal to the Agent's Fee, the corporate finance fee and Agent's Options that would otherwise have been earned by the Agent assuming the maximum Offering was completed together with the Agent's costs and expenses incurred to that date. The Agency Agreement defines an "alternative business transaction" as any financing which has the effect of replacing the Offering or a business transaction involving a change of control of the Corporation including a merger, amalgamation, arrangement, take-over bid, insider bid, reorganization, joint venture, sale of all or substantially of assets, exchange of assets or similar transaction. An alternative business transaction does not include a financing arranged by the Corporation that is supplementary to the Offering, including the Concurrent Private Placement.

Pursuant to applicable securities legislation, the Agent may not, throughout the period of distribution under this short form prospectus, bid for or purchase Common Shares or Warrants. The foregoing restriction is subject to exceptions, provided the bid or purchase is not engaged in for the purpose of creating actual or apparent trading in, or raising the price of, such securities. These exceptions include a bid or purchase permitted under the by-laws and rules of the TSXV relating to market stabilization and passive market-making activities. In connection with the Offering, and subject to the foregoing, the Agent may effect transactions which stabilize or maintain the market price of the Common Shares at levels above those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Subscriptions for Offered Securities will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without prior notice. The closing of the Offering is expected to occur on or about the week of December 27, 2011 or such later date up to December 30, 2011 as the Corporation and the Agent may agree.

Except in certain limited circumstances, at the closing, the Common Shares (including the Flow-Through Shares) and Warrants distributed under this short form prospectus will be available for delivery in book-entry form through CDS or, its nominee, and will be deposited with CDS on the Closing Date. Subject to certain exceptions, purchasers of the Units will receive only a customer confirmation from the registered dealer that is a CDS participant and from or through which the securities are purchased and shall not have the right to receive physical certificates evidencing their ownership of the such Common Shares and Warrants.

The TSXV has conditionally approved the listing of the Common Shares (including the Flow-Through Shares) and the Common Shares issuable upon exercise of the Warrants and the Agent's Option to be distributed under this short form prospectus. Listing of such Common Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSXV on or before March 3, 2012.

The Corporation has agreed with the Agent that, for a period ending 140 days from the Closing Date, the Corporation shall not issue any Common Shares, flow-through shares or financial instruments convertible or exchangeable into Common Shares of the Corporation, other than the issuance of stock options pursuant to the Corporation's Stock Option Plan and the issuance of Common Shares for purposes of satisfying stock options or other existing instruments already issued on or before the Closing Date without the prior written consent of the Agent, such consent not to be unreasonably withheld.

The Corporation has agreed for a period of one year from the Closing Date to grant to the Agent the right of first refusal to lead any offering of securities of the Corporation to be issued and sold to the public in Canada by way of private placement or public offering or to provide professional, sponsorship or advisory services performed (or normally preformed) by a broker or investment dealer.

The Units, Common Shares and Warrants comprising the Units and Flow-Through Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws, and accordingly may not be offered or sold within the United States except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws.

CONCURRENT PRIVATE PLACEMENT

Concurrently with the Offering, Carmen will complete the Concurrent Private Placement with various purchasers who will purchase on a "private placement" basis, up to 2,173,914 Placement Units at $0.23 per Placement Unit for gross proceeds to Carmen of up to $0.5 million. Carmen anticipates costs of the Concurrent Private Placement to be approximately $50,000. See "*Use of Proceeds*".

This short form prospectus does not qualify the distribution of the Placement Common Shares or Placement Warrants issuable pursuant to the Concurrent Private Placement. The Agent is not acting as agent for the subscribers to the Concurrent Private Placement and will not be receiving any commission or fee in relation to any Placement Units issued pursuant to the Concurrent Private Placement. The Placement Common Shares and Placement Warrants issued pursuant to the Concurrent Private Placement will be subject to a statutory hold period. The Concurrent Private Placement is subject to a number of conditions including completion of definitive documentation, the concurrent closing of this Offering and the approval of the TSXV. The Corporation has applied to the TSXV to list the Placement Common Shares and the Common Shares issuable upon exercise of the Placement Warrants. Listing of such Common Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSXV.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Corporation, and Davis LLP, counsel to the Underwriters, the following summary describes, as of the date hereof, the principal Canadian federal income tax considerations generally applicable to a subscriber who acquires, as beneficial owner, Common Shares, Warrants or Flow-Through Shares pursuant to this Offering and who, at all relevant times, for purposes of the application of the Tax Act, (i) is, or is deemed to be, resident in Canada; (ii) deals at arm's length with the Corporation; (iii) is not affiliated with the Corporation; and (iv) holds the Common Shares, Warrants and Flow-Through Shares as capital property (a "**Holder**"). Generally, the Common Shares, Warrants and Flow-Through Shares will be capital property to a Holder provided the Holder does not acquire or hold those securities in the course of carrying on a business or as part of an adventure or concern in the nature of trade. Certain Holders, whose Common Shares (other than Flow-Through Shares) might not otherwise be capital property, may, in certain circumstances, be entitled to have the Common Shares (other than Flow-Through Shares) and all other "Canadian securities", as defined in the Tax Act, owned by such Holder in the taxation year in which the election is made, and in all subsequent taxation years, deemed to be capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Such an election is not available with respect to Flow-Through Shares or the Warrants.

This summary does not apply to a subscriber: (i) that is a "financial institution", a "specified financial institution" or an interest in which constitutes a "tax shelter investment", all within the meaning of the Tax Act; (ii) to whom the "functional currency" reporting rules apply within the meaning of the Tax Act; or (iii) that is a partnership or trust. Such subscribers should consult their own tax advisors. In addition, this summary does not apply to a subscriber for Flow-Through Shares (i) that is a "principal business corporation" within the meaning of the Tax Act; (ii) whose business includes trading or dealing in rights, licenses or privileges to explore for, drill for or take minerals, petroleum, natural gas or other related hydrocarbons; or (iii) that is a partnership or trust. Such subscribers should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act, and counsel's understanding of the current published administrative and assessing practices and policies of the Canada Revenue Agency (the "**CRA**"). This summary takes into account all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and assumes that all Proposed Amendments will be enacted in the form proposed. No assurances can be given, however, that the Proposed Amendments will be enacted as proposed, or at all. This summary does not take into account or anticipate any changes in law or administrative or assessing practice whether by legislative, regulatory, administrative or judicial action nor does it take into account the tax legislation or assessing practices and policies of any province, territory or foreign jurisdiction, which may be materially different from those discussed herein.

This summary assumes that the Corporation will make all necessary tax filings in respect of the issuance of the Flow-Through Shares and the renunciation of Qualifying Expenditures in the manner and within the time required by the Tax Act, that the Corporation will incur sufficient Qualifying Expenditures to enable it to renounce to subscribers all of the Qualifying Expenditures the Corporation agrees to renounce to subscribers effective on the dates set out therein and that all expenses which comprise Qualifying Expenditures will be reasonable in amount. This summary assumes that the Corporation will be a "principal-business corporation" at all material times and that the Flow-Through Shares, when issued, will be "flow-through shares" for the purposes of the Tax Act and will not be "prescribed shares" or "prescribed rights" for the purpose of the definition of "flow-through share" in subsection 66(15) or Regulation 6202.1 of the Tax Act.

The income tax consequences to a particular subscriber of an investment in Flow-Through Shares will vary according to a number of factors including the legal status of the subscriber as an individual, a trust, a corporation or a partnership, the province or provinces in which the subscriber resides, carries on business or has a permanent establishment and the amount that would be the subscriber's taxable income but for the investment in the Flow-Through Shares.

This summary is of a general nature only and is not, and is not intended to be, legal, business or tax advice to any particular subscriber. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, prospective subscribers of the Common Shares, Warrants and Flow-Through Shares should consult their own tax advisors having regard to their own particular circumstances.

Flow-Through Shares

Subject to certain restrictions outlined below, the Corporation will be entitled to renounce to a subscriber for Flow-Through Shares, effective on or before December 31, 2011, Qualifying Expenditures in the amount equal to the aggregate subscription price paid by the subscriber for the Flow-Though Shares. Such Qualifying Expenditures must be incurred by the Corporation during the period commencing on the date the subscriptions for Flow-Through Shares are accepted by the Corporation and ending on December 31, 2012. Qualifying Expenditures that are properly renounced to a subscriber will be deemed to be CEE incurred by the subscriber on the effective date of the renunciation and will be added to such subscriber's cumulative Canadian exploration expense ("**CCEE**") as defined in the Tax Act.

Special rules in the Tax Act provide that corporations that have a "taxable capital amount" (within the meaning of the Tax Act) of not more than $15,000,000 at the time consideration for the Flow-Through Shares is given may renounce to subscribers up to $1,000,000 of Eligible CDE incurred in a calendar year and have the Eligible CDE deemed to constitute CEE to the subscriber and added to such subscribers' CCEE. The Corporation intends to incur Eligible CDE so that the renounced Eligible CDE will be considered to be CEE to the subscriber in accordance with these rules.

The Corporation will not be entitled to renounce CEE or Eligible CDE to the extent that the amount so renounced exceeds the Corporation's own CCEE or cumulative Canadian development expense, as defined in the Tax Act. Certain CEE or Eligible CDE incurred pursuant to a flow-through share agreement and within 12 months after the end of the calendar year in which the flow-through share agreement is entered into (the "preceding calendar year") can be treated as if incurred on December 31 of the preceding calendar year, provided that the subscription price for the relevant flow-through shares has been paid for in money during the preceding calendar year, the subscriber deals at arm's length with the issuing corporation throughout that 12-month period and the renunciation has been duly made in January, February or March of the calendar year following such preceding calendar year. In the event the issuing corporation does not fully expend the amounts renounced by the end of the 12-month period, it will be required to reduce the amount previously renounced and the subscribers' income tax returns for the years in which the renounced expenditures were claimed will be reassessed accordingly. Late payment interest will generally not be levied in respect of such reassessment provided any resultant additional taxes are paid by April 30 of the calendar year following the calendar year in which the renunciation was actually made by the Corporation.

A subscriber for Flow-Through Shares may deduct in computing the subscriber's income from all sources for a taxation year an amount not exceeding 100% of the balance of the subscriber's CCEE at the end of that taxation year. Deductions claimed by a subscriber reduce the subscriber's CCEE by the amount claimed. To the extent that a subscriber does not deduct the full CCEE balance at the end of the taxation year, the balance will be carried forward and the subscriber will be entitled to claim deductions in respect thereof in subsequent taxation years in accordance with, and subject to the restrictions under, the provisions of the Tax Act. If at the end of a taxation year amounts deducted exceed the subscriber's CCEE, the excess must be included in computing the subscriber's income for that year and the subscriber's CCEE will thereupon have a nil balance.

The disposition of Flow-Through Shares will not reduce a subscriber's CCEE. Certain restrictions apply in respect of the deduction of CEE following an acquisition of control (and certain reorganizations) of a corporate subscriber. Corporate subscribers should consult their own tax advisors with respect to the application of these rules.

If a subscriber purchases Flow-Through Shares through a Deferred Plan (defined below), the CEE or Eligible CDE renounced will not be available for deduction and the associated tax benefits will be lost.

Disposition of Common Shares and Flow-Through Shares

Generally, a disposition or deemed disposition (other than to the Corporation) of a Common Share or a Flow-Through Share will result in the Holder thereof realizing a capital gain (or a capital loss) in the taxation year of the disposition equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the Holder's adjusted cost base of such shares and reasonable costs of the disposition. See "*Adjusted Cost Base*".

Exercise, Disposition and Expiry of Warrants

Generally, the holder of a Warrant will not realize a gain or loss upon the exercise of a Warrant to acquire a Common Share. Where Warrants are exercised, the holder's cost of the Common Shares acquired thereby will be equal to the aggregate of the holder's adjusted cost base of the Warrants so exercised plus the exercise price paid for the Common Shares.

A disposition or deemed disposition by a holder of a Warrant (other than upon the exercise thereof) will generally give rise to a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, are greater (or less) than such Holder’s adjusted cost base of the Warrants.

In the event of the expiry of an unexercised Warrant, the holder will realize a capital loss equal to the holder's adjusted cost base of such Warrant. The tax treatment of capital losses is discussed in greater detail below under the subheading "*Taxation of Capital Gains and Capital Losses*".

Adjusted Cost Base

A subscriber for Units will be required to allocate the purchase price of each Unit between the Common Share and the Warrant comprising the Unit on a reasonable basis, in order to determine their respective costs for purposes of the Tax Act. The Corporation intends to allocate $0.22 of the issue price of each Unit as consideration for the issue of each Common Share and $0.01 for the issue of each Warrant. Although the Corporation believes such allocation is reasonable, such allocation will not be binding on the Canada Revenue Agency.

The adjusted cost base to a Holder of Flow-Through Shares is deemed to be nil (regardless of the subscription price).

The adjusted cost base, at any particular time, of any Common Shares or Flow-Through Shares acquired pursuant to this Offering or on the exercise of a Warrant will generally be the average of the cost of all Common Shares of the Corporation (including any Flow-Through Shares) then held as capital property.

Taxation of Capital Gains and Capital Losses

Generally, one-half of a capital gain (a "**taxable capital gain**") must be included in computing the income of the Holder in the year of disposition, and one-half of a capital loss (an "**allowable capital loss**") will generally reduce taxable capital gains realized by the holder in the year of disposition. Allowable capital losses in excess of taxable capital gains for the year of disposition generally may be deducted by the Holder against net taxable capital gains realized in any of the three preceding years or in any subsequent year, subject to various detailed provisions of the Tax Act.

A subscriber who disposes of Flow-Through Shares will retain the entitlement to be renounced CEE by the Corporation as described above, as well as the ability to deduct any CEE previously deemed to have been incurred by the subscriber, and a subsequent purchaser of such Flow-Through Shares will not be entitled to any renunciation of CEE in respect thereof.

A subscriber that is a "Canadian-controlled private corporation" (as defined in the Tax Act) will be liable to pay an additional 6 2/3% refundable tax on its "aggregate investment income" for the year, including taxable capital gains realized.

Cumulative Net Investment Loss

One-half of the CEE renounced to a subscriber will increase the subscriber's cumulative net investment loss ("**CNIL**") (as defined in the Tax Act). A subscriber's CNIL will impair the subscriber's ability to claim some or all of the lifetime capital gains deduction available on the disposition of certain qualifying small business corporation shares, farm property and fishing property.

Minimum Tax

Pursuant to the minimum tax rules in the Tax Act, the tax otherwise payable under Part I of the Tax Act by an individual (other than certain trusts) will not be less than the minimum amount computed by reference to the individual's "adjusted taxable income" for the year. For these purposes, the minimum amount generally means the "appropriate percentage" (currently 15%) of adjusted taxable income in excess of $40,000. In calculating adjusted taxable income for this purpose, certain deductions and credits otherwise available are disallowed and certain amounts otherwise not taxable are included in income. These disallowed items include deductions for CEE to the extent the deductions exceed the individual's resource income before deduction of those amounts, and deductions for carrying charges which relate to an investment in flow-through shares to the extent that such deductions exceed the individual's resource income after deductions for resource expenses, including CEE. Also included in adjusted taxable income are 80% of capital gains. Whether and to what extent a particular individual will be subject to minimum tax will depend upon the amount of the individual's income, the sources from which it is derived and the nature and amount of any deductions that are claimed. Any additional tax payable for a year resulting from the application of the minimum tax provisions is recoverable to the extent the tax otherwise determined exceeds the minimum amount for any of the following seven taxation years.

ELIGIBILITY FOR INVESTMENT

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Corporation, and Davis LLP, counsel to the Underwriters, provided that the Common Shares are listed on a "designated stock exchange" within the meaning of the Tax Act on the Closing Date, the Common Shares and Warrants will, if issued on the Closing Date, be "qualified investments" under the Tax Act, for trusts governed by registered retirement savings plans ("**RRSP**"), registered education savings plans, registered retirement income funds ("**RRIF**"), deferred profit sharing plans, registered disability savings plans and tax-free savings accounts ("**TFSA**") (together, "**Deferred Plans**"), provided that, in the case of the Warrants, the Corporation and any person who does not deal at arm's length with the Corporation for the purposes of the Tax act is not an annuitant, beneficiary, an employer or a subscriber under, or a holder of, a Deferred Plan.

Notwithstanding that Common Shares and Warrants may be a qualified investment for a trust governed by a TFSA, and, if certain Proposed Amendments are enacted, a RRSP and a RRIF, the holder of a TFSA or the annuitant under a RRSP or RRIF will be subject to a penalty tax on the Common Shares or Warrants held in the TFSA, RRSP or RRIF, as the case may be, if such shares are a "prohibited investment" for the purposes of the Tax Act. The Common Shares and Warrants will generally be a "prohibited investment" if the holder of the TFSA or the annuitant under the RRSP and RRIF, as the case may be, does not deal at arm's length with the Corporation for the purposes of the Tax Act or has a "significant interest" (as defined in the Tax Act) in the Corporation or a corporation, partnership with which the Corporation does not deal at arm's length for the purposes of the Tax Act. Such holders are urged to consult their own tax advisors.

It is not anticipated that Exempt Plans will subscribe for Flow-through Shares as Exempt Plans, or the holders, annuitants, beneficiaries or subscribers of such Exempt Plans, as the case may be, do not benefit from the deduction of Qualifying Expenditures renounced by the Corporation.

RISK FACTORS

An investment in the Offered Securities is subject to risks and should be considered speculative due to various factors, including the nature of the Corporation's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas reserves and resources. The Corporation's business is subject to the risks normally encountered in the oil and natural gas industry such as the marketability of oil and natural gas, competition with companies having greater resources, acquisition, exploration and production risks, need for capital, fluctuations in the market price and demand for oil and natural gas and the regulation of the oil and natural gas industry by various levels of government. The oil and natural gas reserves and recovery information incorporated by reference in this short form prospectus are estimates only and the actual production and ultimate reserves recovered from the properties of the Corporation may be greater or less than the estimates incorporated by reference. The success of acquisitions and further exploration or development projects cannot be assured,

Investors should carefully consider the risks described under the heading "*Risk Factors*" in the AIF and under "*Business Risks and Uncertainties*" in the Interim MD&A, each of which is incorporated by reference in this short form prospectus, as well as the risk factors set forth below and elsewhere in this short form prospectus prior to making an investment in the Offered Securities.

Additional Funding Requirements

Carmen's cash flow may not be sufficient to fund its ongoing activities at all times. From time to time, Carmen may require additional financing in order to carry out its oil and natural gas exploitation, acquisition, exploration, development and production activities. Failure to obtain such financing on a timely basis could cause Carmen to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Carmen's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, Carmen's ability to expend the necessary capital to replace its reserves or to maintain its production will be impaired. If Carmen's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on favourable terms.

Ongoing Need for Financing

Although the Corporation is expected to generate revenue, its ability to continue exploration, development and acquisition efforts will also be dependent on its continued attractiveness to equity investors. The Corporation may incur operating losses as it continues to expend funds to explore and develop its properties and possibly other properties in excess of its projected revenues. There is no guarantee that the Corporation will be able to profitably develop its properties or at all. There is also no guarantee that any funds will be raised pursuant to the Offering or the Concurrent Private Placement. Additionally, the Corporation will require additional capital to complete its 2012 capital program as planned and generally to continue exploration, development or acquisition efforts, and the failure to raise such capital could result in the Corporation having to, entirely or partially, curtail or suspend its 2012 capital program or cease any other exploration or development activities or acquisition efforts or dispose of all or substantially of its assets or cease to carry on business. From time to time, the Corporation may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Corporation's debt levels above industry standards.

Canadian Tax Treatment of Flow-Through Shares

The tax treatment of oil and gas activities and Flow-Through Shares constitutes a major consideration of an investment in the Flow-Through Shares. There is no guarantee that the current tax laws and administrative practices of both the federal and provincial tax authorities will not be amended or construed in such a way that the tax considerations for a subscriber holding Flow-Through Shares will not be altered in a materially unfavourable way and there is no guarantee that there will be no material differences of opinion between the federal and provincial tax authorities with respect to the tax treatment of the Flow-Through Shares, the status of such Flow-Through Shares and the activities contemplated by the Corporation's exploration and development programs. There is no guarantee that the Qualifying Expenditures incurred by the Corporation, or the expected tax deductions claimed by subscribers will be accepted as Qualifying Expenditures by the CRA. See "*Certain Canadian Federal Income Tax Considerations*".

Notwithstanding its agreement to do so (see "*Details of the Offering — Flow-Through Shares*") there is no guarantee that the Corporation will expend an amount equal to the aggregate purchase price for Flow-Through Shares on or prior to December 31, 2012 to incur Qualifying Expenditures. If the Corporation does not expend an amount equal to the aggregate purchase price for Flow-Through Shares to incur Qualifying Expenditures prior to December 31, 2012, it will be required to reduce the amount of Qualifying Expenditures that it has renounced in favour of the subscribers and the subscribers will be reassessed accordingly. Subscribers will not be subject to penalties for any such reassessment but interest will be payable on such additional tax if such tax is not paid by April 30, 2013.

The Corporation has agreed to indemnify the subscribers for any such tax remittances they are required to make; however there can be no certainty that the Corporation will have the necessary financial resources to fulfil its obligations under such indemnity

Market for Warrants

There is currently no market through which the Warrants may be sold and purchasers may not be able to resell the Warrants that comprise a portion of the Units being issued under this short form prospectus. The Corporation does not intend to apply to list the Warrants distributed under this short form prospectus on the TSXV or any other stock exchange. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants and the extent of issuer regulation with respect to the Warrants.

Volatility of Market Price of Common Shares

The market price of the Common Shares may be volatile. The volatility may affect the ability of holders of Common Shares to sell the Common Shares at an advantageous price. Market price fluctuations in the Common Shares may be due to the Corporation's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Corporation or its competitors, along with a variety of additional factors, including, without limitation, those set forth under "Forward-Looking Statements" in this short form prospectus. In addition, the market price for securities in the stock markets, including the TSXV, recently experienced significant price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market price of the Common Shares.

Forward-Looking Statements May Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties may be found under the heading "*Note Regarding Forward Looking Information*" in this short form prospectus.

Use of Proceeds

The Corporation currently intends to allocate the net proceeds received from the Offering and the Concurrent Private Placement as described under "*Use of Proceeds*" in this short form prospectus. However, management will have discretion in the actual application of the net proceeds, and may elect to allocate proceeds differently from that described in "*Use of Proceeds*" if it is believed it would be in the best interests of the Corporation to do so as circumstances change. The failure by management to apply these funds effectively could have a material adverse effect on the business of the Corporation.

Future Sales of Common Shares by the Corporation

The Corporation may issue additional Common Shares in the future, which may dilute a shareholder's holdings in the Corporation. The Corporation's articles permit the issuance of an unlimited number of Common Shares and shareholders will have no pre-emptive rights in connection with such further issuances. The directors of the Corporation have the discretion to determine the terms of issue of further issuances of Common Shares. Also, additional Common Shares will be issued by the Corporation on the exercise of stock options under the Corporation's stock option plan and on exercise of previously issued common share purchase options and warrants.

Additional information on risks, assumptions and uncertainties are found in this short form prospectus under the heading "*Note Regarding Forward Looking Information*".

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation are MNP LLP, Chartered Accountants, Suite 300, 622 – 5th Avenue S.W. Calgary, Alberta, T2P 0M6.

Valiant Trust Company, of Suite 310, 606-4th Street S.W., Calgary, Alberta, T2P 1P1, is the transfer agent and registrar for the Common Shares.

INTERESTS OF EXPERTS

Certain legal matters in connection with the issuance of the Common Shares offered hereby will be passed upon on behalf of the Corporation by Burnet, Duckworth & Palmer LLP, Calgary, Alberta and on behalf of the Agent by Davis LLP, Calgary, Alberta. As of the date hereof, the partners and associates of Burnet, Duckworth & Palmer LLP and of Davis LLP, as a group, beneficially own, directly and indirectly, less than one percent of the Common Shares.

Reserves estimates included herein and incorporated by reference into this short form prospectus are based upon reports prepared by InSite. As of the date hereof, the principals of InSite, as a group, do not beneficially own, directly or indirectly, any of the Common Shares.

MNP LLP, Chartered Accountants, the Corporation's auditors, are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in several of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

AUDITORS' CONSENT

We have read the short form prospectus of Carmen Energy Inc. (the "Corporation") dated December 12, 2011 qualifying the distribution of: i) up to a maximum of 13,043,478 units of the Corporation at a price of $0.23 per unit, where each unit comprises one common share and one half of one common share purchase warrant; and ii) up to a maximum of 11,111,111 common shares of the corporation issued as "flow-through shares" within the meaning of the Income Tax Act (Canada) at a price of $0.27 per flow-through share. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the directors of the Corporation on the balance sheet of the Corporation as at September 30, 2010 and the statement of cash flows for the period from incorporation on August 5, 2009 to September 30, 2010. Our report is dated October 18, 2010, except for Note 8, which is dated December 15, 2010.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the directors of the Corporation on the schedule of revenue, royalties and operating expenses for the Jumpbush properties to be acquired from BritOil Inc. and Red Mountain Resources Ltd. for the years ended September 30, 2010 and 2009. Our report is dated April 5, 2011.

(signed) "*MNP LLP*"

Chartered Accountants

Calgary, Alberta
December 12, 2011

CERTIFICATE OF THE CORPORATION

Date: December 12, 2011

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of British Columbia, Alberta, Saskatchewan and Ontario.

(Signed) "*Brian Doherty*" President and Chief Executive Officer	(Signed) "*Tyler Rice*" Chief Financial Officer and Corporate Secretary

On Behalf of the Board of Directors

(Signed) "*Archibald Nesbitt*" Director	(Signed) "*Randall Harrison*" Director

CERTIFICATE OF THE AGENT

Date: December 12, 2011

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of British Columbia, Alberta, Saskatchewan and Ontario.

MACQUARIE PRIVATE WEALTH INC.

(Signed) "*Jeff German*"
Vice President, PVC Corporate Finance

(Signed) "*Brent Larken*"
Head of Syndication and PVC