

ORIGINAL

UNITED STATES BANKRUPTCY COURT NORTHERN DISTRICT OF TEXAS		PROOF OF CLAIM
Name of Debtor: Cano Petroleum, Inc.	Case Number: 12-31549	COURT USE ONLY
NOTE: Do not use this form to make a claim for an administrative expense that arises after the bankruptcy filing. You may file a request for payment of an administrative expense according to 11 U.S.C. § 503.		
Name of Creditor (the person or other entity to whom the debtor owes money or property): The Tom L. and Anne Burnett Trust, by Anne Burnett Windfohr, Windi Phillips, Ben Fortson, Jr., George Beggs, III, and Ed Hudson, Jr., as Co-Trustees; Anne Burnett Windfohr (Marion); and Burnett Ranches, LLC		
Name and address where notices should be sent: Kelly Hart & Hallman LLP Attn: Katherine L. Thomas 201 Main Street, Suite 2500 Fort Worth, Texas 76102 Telephone number: (817)332-2500 email: katherine.thomas@kellyhart.com		☐ Check this box if this claim amends a previously filed claim. Court Claim Number: _____ (If known) Filed on: _____
Name and address where payment should be sent (if different from above): Burnett Ranches, LLC Attn: V. Neils Agather 801 Cherry Street #9 Fort Worth, Texas 76102 Telephone number: (817) 332-5108		☐ Check this box if you are aware that anyone else has filed a proof of claim relating to this claim. Attach copy of statement giving particulars.
RECEIVED MAY 03 2012 BMC GROUP		
1. Amount of Claim as of Date Case Filed: <u>Not applicable</u> If all or part of the claim is secured, complete item 4. If all or part of the claim is entitled to priority, complete item 5. ☐ Check this box if the claim includes interest or other charges in addition to the principal amount of the claim. Attach a statement that itemizes interest or charges.		
2. Basis for Claim: <u>Settlement Agreement and Release – Executory Contract Obligation found in paragraph 2.4 of the Settlement Agreement and Release</u> (See instruction #2)		
3. Last four digits of any number by which creditor identifies debtor: _____	3a. Debtor may have scheduled account as: _____ (See instruction #3a)	3b. Uniform Claim Identifier (optional): _____ (See instruction #3b)
4. Secured Claim (See instruction #4) Check the appropriate box if the claim is secured by a lien on property or a right of Setoff, attach required redacted documents, and provide the requested information. Nature of property or right of setoff: ☐ Real Estate ☐ Motor Vehicle ☐ Other Describe: Value of Property: Annual Interest Rate ___% ☐ Fixed or ☐ Variable (when case was filed) Amount of arrearage and other charges, as of the time case was filed, included in secured claim, if any: Basis for perfection: Amount of Secured Claim: Amount Unsecured:		
5. Amount of Claim Entitled to Priority under 11 U.S.C. § 507 (a). If any part of the claim falls into one of the following categories, check the box specifying the priority and state the amount.		
☐ Domestic support obligations under 11 U.S.C. § 507 (a)(1)(A) or (a)(1)(B).	☐ Wages, salaries, or commissions (up to \$11,725*) earned within 180 days before the case was filed or the Debtor's business ceased, whichever is earlier -- 11 U.S.C. § 507 (a)(4).	☐ Contributions to an employee benefit plan -- 11 U.S.C. § 507 (a)(5).
☐ Up to \$2,600* of deposits toward Purchase, lease, or rental of property or Services for personal, family, or household Use -- 11 U.S.C. § 507 (a)(7).	☐ Taxes or penalties owed to governmental units -- 11 U.S.C. § 507 (a)(8).	☐ Other -- Specify Applicable paragraph of 11 U.S.C. § 507 (a) (___).
Amount entitled to priority: \$ _____		
*Amounts are subject to adjustment on 4/1/13 and every 3 years thereafter with respect to cases commenced on or after the date of adjustment.		
6. Credits. The amount of all payments on this claim has been credited for the purpose of making this proof of claim. (See instruction #6)		

CANO PETROLEUM



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7. Documents: Attached are **redacted** copies of any documents that support the claim, such as promissory notes, purchase orders, invoices, itemized statements of running accounts, contracts, judgments, mortgages, and security agreements. If the claim is secured box 4 has been completed, and **redacted** copies of documents providing evidence of perfection of a security interest are attached. (See instruction #7, and the definition of "**redacted**".)

DO NOT SEND ORIGINAL DOCUMENTS. ATTACHED DOCUMENTS MAY BE DESTROYED AFTER SCANNING.

If the documents are not available, please explain:

8. Signature: (See instruction #8)

Check the appropriate box.

- ☒ I am the creditor. ☐ I am the creditor's authorized agent. ☐ I am the trustee, or the debtor, ☐ I am a guarantor, surety, indorser, or other codebtor.
(Attach copy of power of attorney, if any.) or their authorized agent. (See Bankruptcy Rule 3005.)
(See Bankruptcy Rule 3004.)

I declare under penalty of perjury that the information provided in this claim is true and correct to the best of my knowledge, information, and reasonable belief.

Print name: V. Neils Agather

Title: President

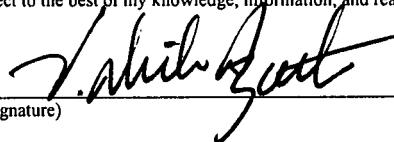
Company: Burnett Ranches, LLC

Address and telephone number (if different from notice address above):

801 Cherry Street #9

Fort Worth, Texas 76102

Telephone number: (817) 332-5108


(Signature)

4/20 2012
(Date)

Penalty for presenting fraudulent claim: Fine of up to \$500,000 or imprisonment for up to 5 years, or both. 18U.S.C. §§ 152 and 3571.

SETTLEMENT AGREEMENT AND RELEASE

THIS SETTLEMENT AGREEMENT AND RELEASE ("Agreement"), dated and effective as of October 19, 2010 ("Effective Date"), by and between *Cano Petroleum, Inc.*, ("*Cano*"), *WO Energy, Inc.* ("*WO Energy*"), *W.O. Energy of Nevada, Inc.* ("*W.O. Nevada*") and *W.O. Operating Company, Ltd.* ("*W.O. Operating*") (*Cano*, *WO Energy*, *W.O. Nevada* and *W.O. Operating* are each a "Defendant" and collectively referred herein as the "Defendants") and the following person and or entities, *The Tom L. and Anne Burnett Trust*, by *Anne Burnett Windfohr*, *Windi Phillips*, *Ben Fortson, Jr.*, *George Beggs, III*, and *Ed Hudson, Jr.*, as *Co-Trustees*; *Anne Burnett Windfohr*; and *Burnett Ranches, LLC* each of which are defined herein individually as a "Claimant" and are all collectively defined herein as "Claimants". Claimants and Defendants are collectively referred to as the "Parties" or as a "Party" when referred to in the singular.

WHEREAS, *The Tom L. and Anne Burnett Trust*, by *Anne Burnett Windfohr*, *Windi Phillips*, *Ben Fortson, Jr.*, *George Beggs, III*, and *Ed Hudson, Jr.*, as *Co-Trustees*; *Anne Burnett Windfohr*; and *Burnett Ranches, LLC* are a plaintiff or successor-in-interest in the matter styled *Burnett Ranches, LLC, et al v. Cano Petroleum, Inc., et al*, Cause No. 9840 in the 100th Judicial District Court of Carson City, Texas (the "Lawsuit") as set forth in the Fourth Amended Original Petition;

WHEREAS, each Claimant alleges Defendants caused to ignite wildfires that allegedly began on or about March 12, 2006 in or around Carson County, Texas (the "Fires");

WHEREAS, the Parties to this Agreement desire to resolve fully and finally all of the claims and causes of action of every kind whatsoever that the Parties have, or may have in the future, arising out of or related to the Lawsuit and the Fires;

WHEREAS, to avoid the cost, uncertainty and inconvenience of further litigation, and to buy peace, the Parties have agreed to resolve the Lawsuit pursuant to the terms of this Agreement.

NOW, THEREFORE, for and in consideration of the foregoing premises, the mutual covenants contained herein and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties hereby covenant, stipulate and agree as follows:

1. Defined Terms. As used in this Agreement each of the following terms shall have the meaning assigned to such term as set forth below:

- 1.1 All references to Claimant include his, her, or its spouse, predecessors, successors, heirs, assigns, subsidiaries, affiliates, partners, insurers, estates, agents, servants, employees, receivers,

administrators, executors, directors, officers, attorneys and legal representatives.

- 1.2 All references to Defendants include their predecessors, successors, heirs, assigns, subsidiaries, affiliates, partners, insurers, estates, agents, servants, employees, receivers, administrators, executors, directors, officers, attorneys and legal representatives.

2. Payment; Termination of Litigation and Adoption of Dixon Creek Ranch Manual.

- 2.1 Defendants agree to pay the sum of \$1,000,000.00 (One Million and no/100) U.S. dollars and other good and valuable consideration (the "Settlement Sum") to Claimants payable as follows: a cash payment of \$50,000.00 (Fifty Thousand and no/100) U.S. dollars delivered to Claimants counsel within five (5) business days of receipt of the executed Agreement by Defendants' counsel. The balance of the Settlement Sum, being \$950,000.00, shall be payable in the form of a promissory note ("Note"), executed by Defendants and payable to Claimants, with interest at a rate of five percent per annum (5%), monthly interest only payments for a period of twenty-four (24) months with the first payment due the 19th day of the month following the month of execution of this Agreement, monthly payments due the 19th day of each month thereafter and with all principle and unpaid Note interest due at the end of twenty-four (24) months. After the initial cash payments, all future payments shall be made by wire transfer to an account designated in writing by Claimants. The form of the Note is attached and incorporated as Exhibit A.
- 2.2 Settlement Allocation. Claimants acknowledge and agree that the allocation and/or division of the Settlement Sum or any portion thereof will be the responsibility of Claimants' counsel and no Defendant has made any representation to any Claimant related to such allocation and/or division.
- 2.3 Dismissal of the Lawsuit. Within ten (10) days of the payment of the initial cash payment set forth in Section 2.1, Claimants agree to file a Non-Suit of all claims asserted in the Lawsuit. Such filing shall be **WITHOUT** prejudice to the future assertion or filing of the same claims by some or all of the same Claimants. The Parties shall bear their own costs and attorney fees. Upon full and final payment by Defendants of the Note or in the event that the Note, or any interest therein, is sold, transferred, assigned, pledged, or conveyed,

in whole or in part, to any individual, entity, trust or other third party, the Non-Suit shall then be deemed to be **WITH** prejudice without the necessity of future action by either Party.

- 2.4 Defendants agree to adopt the **Manual for Operator of Oil and Gas Properties Located on Burnett Ranches, Ltd. Dixon Creek Ranch Carson and Hutchinson Counties, Texas** dated March 2006 and attached and incorporated as Exhibit B in their operations on the Dixon Creek Ranch.

3. Claimants' Release of Defendant.

- 3.1 Upon the execution of this Settlement Agreement and payment of the initial cash payment set forth in Section 2, each Claimant FULLY RELEASES, HOLDS HARMLESS, REMISES AND FOREVER DISCHARGES **WITHOUT** PREJUDICE Defendants from any and all claims, actions, causes of action, appeals, suits, rights, obligations, damages, losses, charges, debts, liabilities, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, torts, controversies, expenses, judgments, executions, claims and demands whatsoever, **WHETHER FORESEEN OR UNFORESEEN, KNOWN OR UNKNOWN, DISCLOSED OR UNDISCLOSED, MATURED OR UNMATURED**, in law, equity or otherwise, which Claimant has, had or may have against Defendants arising out of or related to any and all prior dealings of the Parties related to the Fires before the Effective Date, specifically **INCLUDING WITHOUT LIMITATION ANY CLAIMS ARISING OUT OF OR ALLEGING THE SOLE, EXCLUSIVE, OR JOINT NEGLIGENCE OF DEFENDANTS** and further include, but not limited to, any and all claims that were asserted or could have been asserted in the Lawsuits and any claims arising out of or related to the Fires, **whether for negligence, nuisance, trespass, res ipsa loquitor or otherwise, or any claims that assert that any Defendants are a single business enterprise, alter ego general partnership or de facto general partnership or ratified the acts or omission of another Defendant.** This release does not apply to the obligations expressly imposed by this Agreement.
- 3.2 Upon full and final payment by Defendants of the Note referenced above in Section 2 each Claimant FULLY RELEASES, HOLDS HARMLESS, REMISES AND FOREVER DISCHARGES **WITH** PREJUDICE Defendants from any and all claims, actions, causes of action, appeals, suits, rights, obligations, damages, losses, charges,

debts, liabilities, dues, sums of money, accounts, reckoning, bonds, bills, specialties, covenants, contracts, torts, controversies, expenses, judgments, executions, claims and demands whatsoever, WHETHER FORESEEN OR UNFORESEEN, KNOWN OR UNKNOWN, DISCLOSED OR UNDISCLOSED, MATURED OR UNMATURED, in law, equity or otherwise, which Claimant has, had or may have against Defendants arising out of or related to any and all prior dealings of the Parties related to the Fires before the Effective Date, specifically **INCLUDING WITHOUT LIMITATION ANY CLAIMS ARISING OUT OF OR ALLEGING THE SOLE, EXCLUSIVE, OR JOINT NEGLIGENCE OF DEFENDANTS** and further include, but not limited to, any and all claims that were asserted or could have been asserted in the Lawsuits and any claims arising out of or related to the Fires, **whether for negligence, nuisance, trespass, res ipsa loquitor or otherwise, or any claims that assert that any Defendants are a single business enterprise, alter ego, general partnership or de facto general partnership or ratified the acts or omissions of another Defendant.** This release does not apply to the obligations expressly imposed by this Agreement.

4. Default in Payment of Note. In the event Defendants shall default under the terms of the Note, Claimants must elect in writing within 45 days to:

4.1 File suit in Tarrant County, Texas to collect the Note as provided in the Note;

OR

4.2 Assert the claims and causes for action presently asserted in the Lawsuit regarding the Fires by re-filing within 45 days from default its pending claims and causes of action in Carson County Texas. **As additional consideration to induce claimants to enter into this Agreement, DEFENDANTS AGREE TO WAIVE ANY APPLICABLE DEFENSE OF THE STATUTE(S) OF LIMITATIONS SHOULD CLAIMANTS TIMELY ELECT TO PROCEED UNDER Section 4.2.** Should Claimants re-file a lawsuit regarding the Fires, Defendants reserve the right to assert and plead any and every defense, claim, and cause of action other than applicable statute(s) of limitations. In the event of such re-filing (i) Claimants shall have no cause of action against Defendants arising from or relating to the Note and the Note and all of Defendants'

obligations thereunder terminate, and (ii) should Claimants ultimately be awarded a judgment of monetary damages against Defendants, Defendants shall be entitled as a credit against such award an amount equal to all payments made by Defendants under the terms of the Note ("Note Payments"). In the event that the amount of Note Payments exceeds any such monetary damage award or no monetary damage award is made, such excess amount or Note Payment amount if there are no monetary damages awarded shall be paid to Defendants by Claimants within five (5) business days of such judgment becoming final and non-appealable.

- 4.3 Failure by Claimant to elect 4.1 or 4.2 course of action shall constitute waiver of claimants' remedies.
- 4.4 Notwithstanding any other term or provision contained herein to the contrary, in the event that the Note, or any interest in the note, is sold, transferred, assigned, pledged, or conveyed, in whole or in part, to any individual, entity, trust or other third party, each Claimant FULLY RELEASES, HOLDS HARMLESS, REMISES AND FOREVER DISCHARGES **WITH PREJUDICE** Defendants from any and all claims, actions, causes of action, appeals, suits, rights, obligations, damages, losses, charges, debts, liabilities, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, torts, controversies, expenses, judgments, executions, claims and demands whatsoever, **WHETHER FORESEEN OR UNFORESEEN, KNOWN OR UNKNOWN, DISCLOSED OR UNDISCLOSED, MATURED OR UNMATURED**, in law, equity or otherwise, which Claimant has, had or may have against Defendants arising out of or related to any and all prior dealings of the Parties related to the Fires before the Effective Date, specifically **INCLUDING WITHOUT LIMITATION ANY CLAIMS ARISING OUT OF OR ALLEGING THE SOLE, EXCLUSIVE, OR JOINT NEGLIGENCE OF DEFENDANTS** and further including, but not limited to, any and all claims that were asserted or could have been asserted in the Lawsuits and any claims arising out of or related to the Fires, **whether for negligence, nuisance, trespass, res ipsa loquitor or otherwise, or any claims that assert that any Defendants are a single business enterprise, alter ego, general partnership or de facto general partnership or ratified the acts or omissions of another Defendant.**

5. Covenants. Claimants hereby covenant, represent and warrant to Defendants, and Defendants hereby covenant, represent and warrant to Claimants, as follows:

- 5.1 Such Party is correctly described and named in the Agreement; and Burnett Ranches, LLC is a Texas Limited Liability Company formed as of December 19, 2007, in a reorganization that transferred the assets of Burnett Ranches, Ltd., to Burnett Ranches, LLC. Burnett Ranches Ltd. filed its certificate of cancellation effective December 31, 2007. Burnett Ranches, LLC is the owner of all claims and causes of action originally asserted in the Lawsuit by Burnett Ranches, Ltd., and the proper party to assert such claims and causes of action as the legal successor to Burnett Ranches, Ltd.
- 5.2 Before executing this Agreement, such Party became fully informed of the terms, contents, provisions, and effect of this Agreement.
- 5.3 The signatory to this Agreement signing on behalf of such Party is authorized and legally competent to execute this Agreement as the legal, valid and binding act and deed of such Party, and is a duly authorized representative of such Party.
- 5.4 This Agreement is fully and forever binding on, and enforceable against such Party in accordance with its terms.
- 5.5 The execution and delivery of this Agreement and any other documents, agreements or instruments executed or delivered by such Party pursuant hereto and the consummation of the transactions herein or therein contemplated does not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any material agreement or instrument to which such Party is a party or any provision of law, statute, rule or regulation applicable to such Party or any judicial or administrative order or decree by which such Party is bound, or if it does, such default has been waived.
- 5.6 If such Party is not an individual, then before executing this Agreement, the signatory for such Party fully informed all appropriate directors, officers, beneficiaries, and representatives of or persons having an interest in or relationship with such Party of the terms, contents, provisions and effect of this Agreement; and the execution and delivery of this Agreement by the signatory for such Party has been duly authorized and approved by the beneficiaries, board of directors, partners or other persons, if any, whose

authorization or approval is required or necessary to authorize execution and delivery of this Agreement by such signatory as the binding act and deed of such Party.

- 5.7 The claims, if any, that were or that could have been asserted on behalf of Claimant(s) were, and are, currently owned solely by Claimant. The Claimants' claims are free and clear of any and all claims, liens or other encumbrances of any kind or nature, of any other person or entity, and there is no other person or entity which could or should have asserted such claims or joined in any settlement or compromise of such claims.
- 5.8 The Claimant has not assigned, pledged or in any other manner sold, transferred or hypothecated any right, title, interest, cause of action, or claim that arises out of or is provided to be released by the Claimant pursuant to this Agreement.
- 5.9 In entering into and signing this Agreement, such Party has had the benefit of and has relied and acted on the independent advice of attorneys of such Parties own choosing, and enters into this Agreement freely by such Party's own choosing and judgment, and without duress or other influences.
- 5.10 Such Party agrees that the other Party has no duty to that Party, whether as a fiduciary or otherwise, nor any special relationship or relationship of trust and confidence, in connection with the negotiation, execution, or effectuation of this Agreement, and such Party is not relying on any such relationship or any fiduciary or other purported duty from any of the other Parties in any action taken pursuant to or in connection with this Agreement, or in any other matter related to this Agreement, and hereby expressly waives any such duty or relationship to the extent such is found to exist notwithstanding any or all of the foregoing.
- 5.11 Such Party has made an investigation to such Party's satisfaction of all facts and reasons why such Party should enter into this Agreement and agrees, based upon such Party's knowledge, experience and investigation, that this Agreement is fair and just.
- 5.12 Such Party represents that it has not relied upon, and will not rely upon, any statements, acts or omissions by any Party, except for the covenants, representations and warranties set forth in this Agreement, in making its decision to enter into this Agreement.

- 5.13 This Agreement is duly executed by such Party with full knowledge and understanding of its terms and meaning, on such Party's own judgment and upon the advise of such Party's attorney and financial and tax advisors.
- 5.14 This Agreement is not and shall not be construed as an admission of wrongdoing or liability by any Party, any such wrongdoing or liability is and has been specifically denied by each Party. It is expressly understood and agreed that the terms of this Agreement are contractual and not merely recitals, and that the agreements contained herein and the consideration transferred is intended to compromise doubtful and disputed claims, avoid and terminate litigation, and buy peace, and that no payments made and no release or other consideration given by any Party shall be construed as an admission of wrongdoing or liability by any Party, all wrongdoing or liability being expressly denied by each Party.
- 5.15 Such Party covenants that it will not in any manner challenge, or make any claim regarding this Agreement or the negotiations, execution or performance of this Agreement, other than claims seeking to enforce the Party's rights under this Agreement. Such Party further agrees to execute, acknowledge and deliver all such further and other instruments and to do such further acts as may be reasonably necessary to accomplish the matters and results set forth and provided for in this Agreement.
- 5.16 Such Party acknowledges that its aforesaid representations are a material inducement to every other Party to enter into this Agreement.
6. Notice. Whenever this Agreement requires or permits any consent, notice, request, or demand from one person to another, the consent, notice request, or demand must be in writing to be effective and shall be deemed to be given or delivered when actually received by the Party to whom directed, or, regardless of whether actually received, if earlier, three (3) business days following deposit in a regularly maintained receptacle for the United States mail, registered or certified, postage fully prepaid, addressed to the Party to whom directed at the address set forth below or such other address as such Party may have previously specified by notice given pursuant to this Section 6.

If to any Defendant:

Phillip Feiner
General Counsel
Cano Petroleum, Inc.
801 Cherry Street
Unit#25, Suite 3200
Fort Worth, Texas 76102

If to any Claimant:

V. Neils Agather
President of Burnett Companies
Burnett Plaza, Suite 1500
801 Cherry Street-Unit#9
Fort Worth, Texas 76102

7. Non-Assignment of Claims. The Parties hereby represent and warrant that they each are the only and lawful owner of any and all claims that we asserted or could have been asserted in the Lawsuit and that no portion of any claim being released pursuant to this Agreement has been assigned or conveyed to any other person, party, or entity. The Parties further agree that the obligations imposed by this Agreement are not assignable.
8. Taxability. The Parties understand and agree that none of the Parties or their attorneys have made any representations or warranties regarding the taxability or non-taxability of any of the consideration exchanged pursuant to this Agreement.
9. Entire Agreement. The Parties further acknowledge that this Agreement contains the entire agreement of the parties and supersedes any and all prior written or oral agreements, covenants, representations, arrangements and understandings between the parties relating to the subject matter hereof and that no oral understandings, representations, arrangements, promises, inducements or agreements contrary to the terms of this Agreements exists.
10. Invalidity. Should any provision of this Agreement be declared or be determined by any court to be illegal or invalid, the validity of the remaining parts, terms or provisions shall not be affected, and any illegal or invalid part, term or provision shall not be deemed to be a part of this Agreement.
11. Section Numbers and Headings. Section numbers and section headings have been set forth herein for convenience only, and they shall not be construed to limit or extend the meaning or interpretation of any part of this Agreement.

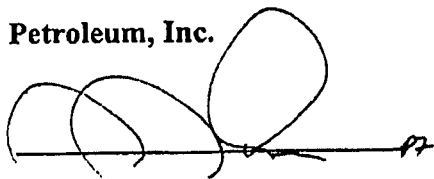
12. Counterparts. This Agreement may be signed in any number of counterparts or copies or on separate signature pages or by facsimile transmission, which when taken together shall be deemed to be an original for all purposes.
13. No Oral Modification. This Agreement may not be modified, amended or terminated orally. No modification, amendment or termination, or any waiver of any of the provisions of this Agreement, shall be binding unless same is in writing and signed by the person against whom such modification, amendment, or waiver is sought to be enforced.
14. Further Assurance. The Parties agree to execute such other and further documents and/or pleadings and to perform such other acts as may be reasonably necessary to evidence or carry out the terms and provisions of this Agreement.
15. Governing Law and Mandatory Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas. The Parties agree that the exclusive forum for resolution of any disputes related to or affecting this Agreement shall be in Tarrant County, Texas. In the event, however, Defendants' default under the Note and the Claimants elect under Section 4.2 to re-file their claims as asserted in the Lawsuit, the Parties agree that the exclusive forum for any claims relating to the Fires shall be in Carson County, Texas.

IN WITNESS WHEREOF, the Parties have executed and delivered this Agreement as of the Effective Date.

Defendants:

Cano Petroleum, Inc.

By:

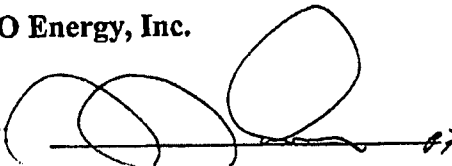


Name: Jeff Johnson

Title: CEO

WO Energy, Inc.

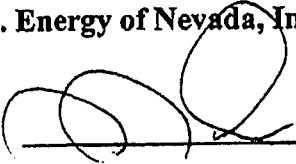
By:



Name: Jeff Johnson

Title: President

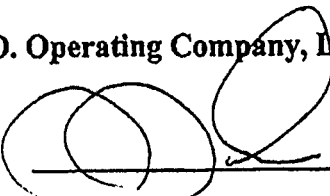
W.O. Energy of Nevada, Inc.

By:  _____ *et*

Name: Jeff Johnson

Title: President

W.O. Operating Company, Ltd.

By:  _____ *et*

Name: Jeff Johnson

Title: President

Claimants:

The Tom L. and Anne Burnett Trust

By: _____

Name: Windi Phillips

Co-Trustee of The Tom L. and Anne Burnett Trust

By: _____

Name: Ben Fortson, Jr.

Co-Trustee of The Tom L. and Anne Burnett Trust

W.O. Energy of Nevada, Inc.

By: [Signature] *et*

Name: Jeff Johnson

Title: President

W.O. Operating Company, Ltd.

By: [Signature] *et*

Name: Jeff Johnson

Title: President

Claimants:

The Tom L. and Anne Burnett Trust

By: [Signature]

Name: Windi Phillips

Co-Trustee of The Tom L. and Anne Burnett Trust

By: _____

Name: Ben Fortson, Jr.

Co-Trustee of The Tom L. and Anne Burnett Trust

W.O. Energy of Nevada, Inc.

W.O. Operating Company, Ltd.

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Claimants:

The Tom L. and Anne Burnett Trust

By: _____

Name: Windi Phillips

Co-Trustee of The Tom L. and Anne Burnett Trust

By: Ben Fortson, Jr.

Name: Ben Fortson, Jr.

Co-Trustee of The Tom L. and Anne Burnett Trust

By: George Beggs III

Name: George Beggs, III

Co-Trustee of The Tom L. and Anne Burnett Trust

By: Ed Hudson, Jr.

Name: Ed Hudson, Jr.

Co-Trustee of The Tom L. and Anne Burnett Trust

By: Anne A. Windfohr

Name: Anne Burnett Windfohr

Co-Trustee of The Tom L. and Anne Burnett Trust

Anne Burnett Windfohr

By: Anne A. Windfohr
Anne Burnett Windfohr

Burnett Ranches, LLC.

By: Anne A. Windfohr
Anne Burnett Windfohr

Title: Chairman

By: _____

Name: George Beggs, III

Co-Trustee of The Tom L. and Anne Burnett Trust

By: Ed Hudson, Jr.

Name: Ed Hudson, Jr.

Co-Trustee of The Tom L. and Anne Burnett Trust

By: Anne H. Windfohr

Name: Anne Burnett Windfohr

Co-Trustee of The Tom L. and Anne Burnett Trust

Anne Burnett Windfohr

By: Anne H. Windfohr
Anne Burnett Windfohr

Burnett Ranches, LLC.

By: Anne H. Windfohr
Anne Burnett Windfohr

Title: Chairman

PROMISSORY NOTE

Date: October 19, 2010

Debtor: Cano Petroleum, Inc., W. O. Operating Company, Ltd., WO Energy, Inc. and W. O. Energy of Nevada, Inc., jointly and severally

Creditor: Burnett Ranches LLC., Anne Burnett Windfohr and the Tom L. and Anne Burnett Trust

Place for Payment: c/o Burnett Oil Company, Inc., Suite 1500
801 Cherry Street, Unit #9
Fort Worth, Texas 76102

Principal Amount: Nine Hundred Fifty Thousand and No/100 U.S. Dollars (\$950,000.00)

Annual Interest Rate: Five and No/100 Percent (5.0%) per annum

Maturity Date: October 19, 2012

Annual Interest Rate on Matured, Unpaid Amounts: Twelve Percent (12.0%) per annum

Terms of Payment (principal and interest): Accrued and unpaid interest is due and payable on the 19th day of each month beginning on November 19, 2010, and continuing on the same day of each succeeding month until and including the Maturity Date. All outstanding principal is due and payable on the Maturity Date.

Debtor unconditionally promises to pay to the order of Creditor the Principal Amount plus interest at the Annual Interest Rate. This note is payable at the Place for Payment and according to the Terms of Payment. All unpaid amounts are due by the Maturity Date. After maturity, Debtor promises to pay any unpaid principal balance plus interest at the Annual Interest Rate on Matured, Unpaid Amounts.

If Debtor defaults in the payment of this note, and such default continues for a period of fifteen (15) days after written notice to Debtor is given in accordance with the provisions of this note, Creditor may declare the unpaid principal balance, earned interest, and any other amounts owed on this note immediately due.

Debtor also promises to pay reasonable attorney's fees and court and other costs if this note is placed in the hands of an attorney to collect or enforce this note. These expenses will bear interest from the date of advance at the Annual Interest Rate on Matured, Unpaid Amounts. Debtor will pay Creditor these expenses and interest on demand at the Place for Payment. These expenses and interest will become part of the debt evidenced by this note.

Interest on the debt evidenced by this note will not exceed the maximum rate or amount of nonusurious interest that may be contracted for, taken, reserved, charged, or received under law. Any interest in excess of that maximum amount will be credited on the Principal Amount or, if the Principal Amount has been paid, refunded. On any acceleration or required or

permitted prepayment, any excess interest will be canceled automatically as of the acceleration or prepayment or, if the excess interest has already been paid, credited on the Principal Amount or, if the Principal Amount has been paid, refunded. This provision overrides any conflicting provisions in this note and all other instruments concerning the debt.

This note only evidences Debtor's unconditional obligation to repay certain liquidated indebtedness to Creditor. Creditor has no obligation to make any loan or advance to Debtor and no lender-borrower relationship should be inferred hereby.

Each Debtor is responsible for all obligations represented by this note.

When the context requires, singular nouns and pronouns include the plural.

Notwithstanding any other terms or provisions of this note, this note is governed by and subject to the Settlement Agreement and Release of even date herewith between the parties, unless this note, or any interest in this note, is sold, transferred, assigned, pledged, or conveyed, in whole or in part, to any individual, entity, trust or other third party.

This note shall be governed by and construed in accordance with the laws of the State of Texas. The parties agree that the exclusive forum for resolution of any disputes involving this note shall be in Tarrant County, Texas.

All notices, requests, demands or other communications required or permitted hereunder shall be in writing to be effective, and shall be deemed to be given or delivered when actually received by the party to whom directed, or, regardless of whether actually received, if earlier, three (3) business days following deposit in a regularly maintained receptacle for the United States mail, registered or certified, postage fully prepaid, addressed to the party to whom directed at the address set forth below or such other address as such party may have previously specified by notice given pursuant to this paragraph.

If to Debtor: Phillip Feiner
 General Counsel
 Cano Petroleum, Inc.
 801 Cherry Street,
 Unit #25, Suite 3200
 Fort Worth, Texas 76102

If to Creditor: V. Neils Agather
 President of Burnett Companies
 Burnett Plaza, Suite 1500
 801 Cherry Street-Unit #9
 Fort Worth, Texas 76102

By: Jeff Johnson 12
Name: Jeff Johnson
Title: CEO

By: Jeff Johnson p2
Name: Jeff Johnson
Title: President

By: Jeff Johnson p7
Name: Jeff Johnson
Title: President

By: Jeff Johnson 27
Name: Jeff Johnson
Title: President

MANUAL

FOR

Operators of

Oil and Gas Properties

LOCATED ON

Burnett Ranches, Ltd.

DIXON CREEK RANCH

CARSON AND HUTCHINSON COUNTIES, TEXAS

MARCH 2006

EXHIBIT

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INTRODUCTION

This manual is an effort to inform operators of Oil and Gas Leases on the ranches of the standard operating procedures that are required. Our objective is to establish procedures that will enhance, protect, and preserve the surface of the ranch for the present and future and at the same time permit you to produce oil and gas in an efficient manner. All of us are dedicated to working with you and your cooperation is and will be appreciated.

The following are persons you should contact for coordination of activities on the ranch:

DIXON CREEK RANCH

CARSON & HUTCHINSON COUNTIES

Bubba Smith - Foreman (806) 273-5371
Mobile (806) 886-1741

Don Brown Law Enforcement
and Security (806) 898-0710

FORT WORTH OFFICE

Philip J. Boschetti (817) 332-6666
Burnett Plaza - Suite 1500
801 Cherry Street - Unit #9
Fort Worth, Texas 76102-6881

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1. RESPONSIBLE PARTY AND NOTICE

As operators we hold you responsible for the conduct of your employees and agents, as well as employees and agents of drilling contractors and service companies that provide services or material to the lease or leases that you operate. Invoices for damages will be provided to you for payment.

Before starting any activity on the ranch a representative of the responsible party is to contact Security. This would include any new projects or activity on existing leases such as laying of pipelines.

2. LEASEHOLD SURFACE MAINTENANCE

a. Post signs at principal entrances, well sites, and tanks in accordance with the requirements of Statewide Rule 3.3 of the Railroad Commission of Texas set forth in Appendix A.

b. For pits that have the approval of the Railroad Commission build up the walls and drain sufficiently often to avoid overflow.

c. Keep all salt water lines, tank batteries, and storage equipment free from leaks.

d. Fill in all pits which are not in use or not approved by the Railroad Commission to original contour of land.

- e. Fence all pumping units and open pits with pipe and suckerrod to prevent the entry of livestock, including small calves, into the enclosed area.
- f. Remove all debris, buildings, equipment, and vehicles of every type whatsoever which are not reasonably necessary for the operation of your leasehold. This includes plastic water lines at time of rig removal.
- g. Use of steel pipe is preferred for all flow lines except salt water lines, however, if poly lines are used for flow lines, they must be buried at least 18 inches deep. If the lines go under a road they must be buried 24 inches beneath the road surface.
- h. No flagging tape is to be used in the horse pastures.
- i. A seeding program will be established to re-seed all locations on the ranch at the time the pits are closed.
- j. All reserve pits are to be built inside the location.
- k. During drilling operations a hog wire and barbed wire fence is to be constructed on three sides of the reserve pit, with rig side being fenced with same material all on the day the rig is moved to the location.
- l. If drilling rig is left on location after completion, then a night watchman is required until rig is removed. Please provide Security a schedule

showing name and hours.

- m. Before a drilling rig is to be moved to a location, please notify Security of date of move, names and addresses of crew members.
 - n. During wet weather drilling rigs, drip trucks, and other heavy equipment are not to be moved on, onto, or off the ranch without the consent of Foreman or Security.
 - o. Locations within horse pastures require some modifications to these requirements. Please contact Security for these changes.
3. ROADS, GATES, CATTLE GUARDS, AND LOCKS
- a. To construct a new road or alter an existing road requires the following to be accomplished:
 - (1) Provide to Ranch Foreman or Security a plat showing the proposed route, lease name, pasture name - if known, how it will be constructed, and expected start and completion date.
 - (2) Written approval of (1) above by Ranch Foreman or Security.
 - (3) Thereafter to be maintained to ranch standards.
 - b. Roads constructed without authority will result in charges for damages to be 150% of schedule. Unnecessary roads will be closed at the discretion of the Ranch Foreman.

c. When new cattle guards or gates are required to be built to gain entry to a new oil lease, the H braces for the fence should be built as follows:

- (1) No cattle guards are to be installed without the approval of the Ranch Foreman.
- (2) 2 7/8 inch pipe should be cemented a minimum of 30 inches deep and eight feet apart.
- (3) 2 3/8 inch pipe will be used for cross members.
- (4) The size of the gates will be decided by the Ranch Foreman.

d. Existing and new lease roads and cattle guards are to be maintained by operator to ranch standards. Specific attention is to be given to mud holes or washouts of roads to preclude altering of road by going around and damaging additional ranch land. Mud holes and washouts are to be filled by the operator as soon as possible with suitable material. Failure to do so will result in additional charges for damages.

e. For ranch roads used by more than one operator the maintenance cost will be shared equitably as they agree. This sharing procedure and level of maintenance will be developed with operators and ranch authority.

f. Gates or cattle guards to all entrances to the ranch

as well as some interior roads have been locked. Please contact Security to arrange a lock setup to your lease.

g. Without fail you and your agents are to lock the gates after you enter and after you leave. Gates must be locked at all times between the hours of 5:00 p.m. to 7:00 a.m.

4. VEHICLES

- a. Vehicles on ranch roads or lease roads are to observe a speed limit of 25 mph.
- b. Any vehicle on ranch property may be stopped and searched by Ranch Foreman or Security.
- c. Security should be notified prior to operation of vehicles, including drip trucks, on ranch at night.

5. FIRE PREVENTION

- a. Space all distribution poles supporting the power lines no more than 300 feet apart.
- b. Stretch all power lines so that lines will have uniform slack.
- c. Hang power lines sufficiently far apart so that they will not touch in high winds or when livestock rub on guy wires and poles.
- d. Space all insulator racks at least 18 inches apart.
- e. Support all poles at curves or corners with guy wires attached to the pole with bolts. Support all guy wires at midpoint with poles.

- f. Ground all guy wires or sheath them in 8 foot fiberglass guy guards.
 - g. Place each distribution pole which connects to a pump as near as practicable to the pumping unit which it services.
 - h. Sheath all cable which runs from the top of the pole to the switch box in conduit made of PVC or stronger material.
 - i. Maintain all electrical lines at a sufficient height to allow a rider on horseback to pass underneath. Under no circumstances lay electrical lines on the ground.
 - j. Space the transformers so as to avoid a voltage drop below the requirements for the pumping motors.
 - k. Keep grass and other combustible material cleared from electrical motors.
6. WATER
- No water shall be used from stock tanks or any other source on the ranch without the written consent of the Ranch Foreman or Security and paid for in advance.
7. SALT WATER DISPOSAL
- a. Trucks transporting salt water should have a Railroad Commission permit showing permit number, list and location of wells being serviced. This permit should be available for inspection when requested by Ranch Foreman or Security.

- b. Use of a salt water disposal well to dispose of off-lease salt water requires a written lease from the surface owner with the consideration for this right to be negotiated.
 - c. All poly-pipe salt water disposal lines laid from a tank battery to a disposal well will be buried at least 18 inches deep and 24 inches deep under roadways.
8. REPORTS
- Please furnish to Philip J. Boschetti at the Fort Worth office the Railroad Commission Reports W-1, W-2, W-3, P-1 and P-2.
9. RIGHTS OF WAY
- a. Contact Security and obtain written approval (use of tenant's consent form is acceptable) as to location.
 - b. Provide consent to Fort Worth office who will then provide off-lease Right of Way agreement form.
- For on-lease Right of Way include with consent a usual damage receipt as required.
10. LEASE ASSIGNMENTS AND/OR CHANGE OF OPERATOR
- a. Provide to Fort Worth office an executed copy of any assignments of working interest.
 - b. Notify Fort Worth office in writing when there is a change of operator.

11. ALCOHOLIC BEVERAGES, HUNTING, AND FISHING
No alcoholic beverages, hunting, fishing, firearms, longbows, or crossbows will be allowed on the ranch.

12. MISCELLANEOUS

- a. If you observe someone on the ranch without any business purpose, please notify Security or Ranch Foreman immediately.
- b. Damage to ranch water lines by an operator or an agent thereof is to be reported to Security or Ranch Foreman and repaired by operator to ranch specifications.

13. CHARGES FOR DAMAGES

Operators shall pay Burnett Ranches, Ltd. for all surface damage as follows:

DESCRIPTION	AMOUNT
a. Location charge: Payment provides for ingress and egress on existing roads, tank battery, separator, pump jack, drilling pit, and off ground electric lines all within the lease. If there is excessive surface damage, the additional charge will be determined based on area with a minimum of 50% of base amount.	\$3,500

b. Damages for new roads with a maximum width of 20 feet as approved by Foreman: \$12 per rod and maintenance

c. Caliche, or rock where used on ranch roads: No charge

Locations, etc.: \$1 per yard of material

Caliche off Ranch: \$2 per yard of material

Contact Ranch Security before hauling caliche.

d. Drilling water when granted written approval by Foreman: \$3,000

e. Compressor site and other above ground equipment: Based on area disturbed. Minimum: \$350/year

f. Oil leaks: Same as E

g. Salt water leaks: Same as E

h. Debris, surplus material, and general appearance: No charge when corrected by operator. If not remedied after notice

and is corrected by Burnett Ranches, Ltd. then cost plus 50%.

i. Fire damage: \$350 minimum or \$15 per acre*

*Not including damage to infrastructure, fencing, etc.

j. Electric distribution poles: \$50 per pole

k. Pipeline Rights of Way Off-lease per rod:

Size	ROW*	Damages**	Total
2-6	\$17	\$9	\$26
7-10	\$20	\$10	\$30

The above considerations are applicable for producing oil and gas wells located on the Ranch.

For Rights of Way relating to any other pipelines the consideration is a minimum of \$36 per rod (\$24-r.o.w. and \$12-damages).

* Pipeline Rights of Way fees should be made payable 1/2 to Anne Burnett Windfohr and 1/2 to Tom L. and Anne Burnett Trust.

** Pipeline damage fees should be made payable to Burnett Ranches, Ltd.

l. Pipeline Rights of Way On-lease per rod:

Size	Damages
2-6	\$9
7-10	\$10

m. Death of Livestock:

Bulls	\$4,000
Cows	\$1,200
Yearlings	\$900
Calves	\$750
Horses	To be determined by Foreman

n. Seismic Permit:

\$4,000 per mile --- grass
\$5,000 per mile --- cultivated

o. 3-D Seismic Permit:

\$6 per acre

The Ranch reserves the right to make additions or change the considerations for damages at any time without prior notice.

APPENDIX A

STATEWIDE RULE 3.3

OF THE

RAILROAD COMMISSION OF TEXAS

IDENTIFICATION OF PRODUCING PROPERTIES,

WELLS AND TANKS THEREON

Each property that produces oil or gas or geothermal resources, and each oil, gas, or geothermal resources well and tank, or other approved crude oil measuring facility where tanks are not utilized thereon shall at all times be clearly identified as follows:

- (1) A sign shall be posted at the principal entrance to each such property which shall show the name by which the property is commonly known and is carried on the records of the Commission, the name of the operator, and the number of acres in the property.
- (2) A sign shall be posted at each well site which shall show the name of the property, the name of the operator, and the well number.
- (3) A sign shall be posted at or painted on each oil stock tank and on each remotely located satellite tank, or on each approved crude oil measuring facility where tanks are not utilized, that is located on or serving

each property, which signs shall show, in addition to the information provided for in paragraph (1) above, the Commission lease number for the formation from which oil in the tank or in an approved crude oil measuring facility is produced, and where oil from more than one formation is commingled in the same tank, or in approved crude oil measuring facility, the sign shall show the number of the Commission permit that authorized the commingling of the oil; provided that, if there is more than one tank in a battery which contains oil from only one formation or oil from different formations that is commingled pursuant to a single commingling permit, it will not be necessary for the sign to be posted at or painted on each tank if the sign posted at or painted on a tank in the battery shows the required information and clearly identifies, by tank number or otherwise, the tanks to which the information is applicable.

If a well is separately completed in two or more producing formations, the wellhead valve and flow line serving each separate formation shall be identified by a metal tag or other lettering attached to or painted on either the valve or flow line which shows the name of the formation and identifies the completion string of casing or tubing, as for example "C" for casing, "UT" for upper tubing, "LT" for lower tubing, etc., each being preceded or followed by the name of the producing formation.

The signs and identification required by this rule shall be in the English language, clearly legible, and in the case of the signs required by paragraphs (1), (2), and (3) shall be in letters and numbers at least one (1) inch in height.

KELLY HART

KATHERINE L. THOMAS
katherine.thomas@kellyhart.com

TELEPHONE: 817.878.9377
FAX: 817.878.9777

May 2, 2012

Via OVERNIGHT MAIL

BMC Group, Inc.
Attn: Cano Petroleum, Inc. Claims Processing
18675 Lake Drive East
Chanhassen, MN 55317

Re: *In re Cano Petroleum, Inc.*, Case No. 12-31549; *In re W.O. Energy of Nevada, Inc.*, Case No. 12-31554; *In re WO Energy, Inc.*, Case No. 12-31555; and *In re W.O. Operating Company, Ltd.*, Case No. 12-31556.

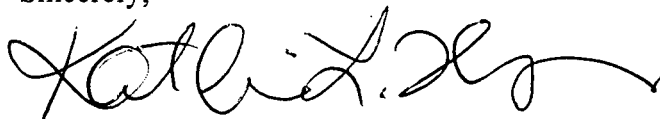
Dear To Whom It May Concern:

Please find enclosed the original versions of eight proof of claims (the "Claims") related to the above-referenced bankruptcy cases and asserted by the following claimants: (i) The Tom L. and Anne Burnett Trust, by Anne Burnett Windfohr, Windi Phillips, Ben Fortson, Jr., George Beggs, III, and Ed Hudson, Jr., as Co-Trustees; (ii) Anne Burnett Windfohr (Marion); and (iii) Burnett Ranches, LLC (collectively, the "Claimants"). In each of the cases, the Claimants assert two Claims pertaining to the following: (i) the unsecured debt obligation; and (ii) the executory contract obligation under the Settlement Agreement and Release. In addition, the related documentation is attached to each Claim.

To receive an acknowledgement of the filing of these Claims, enclosed is a stamped, self-addressed envelope and copies of the Claims.

Should you have any questions, please do not hesitate to contact me. Thanks for your assistance.

Sincerely,



Katherine L. Thomas

cc: Burnett Ranches, LLC
Attn: V. Neils Agather
801 Cherry Street #9
Fort Worth, Texas 76102

Clay Taylor and Glen Johnson (for the firm) via e-mail

From: (817) 810-5487
Katherine L. Thomas
Kelly Hart & Hallman LLP
201 Main Street, Suite 2500

Origin ID: GLEA



J12101112190225

Fort Worth, TX 76102

SHIP TO: (817) 810-5487

BILL SENDER

Cano Petroleum Inc. Claims Process
BMC Group, Inc.
18675 LAKE DR E

CHANHASSEN, MN 55317

Ship Date: 02MAY12
ActWgt: 1.0 LB
CAD: 8346099/INET3250

Delivery Address Bar Code



Ref # 02435.0132/804/377/Cano
Invoice #
PO #
Dept #

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BMC GROUP

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