Dahlman Rose & Co.

Research Note #2086, April 27, 2006

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Cano Petroleum Inc. (CFW/AMEX) — Rating: Buy

Initiating Coverage With $10.50 Price Target: High Growth Crude Oil Manufacturer

Price	$6.92
52-Week Price Range	$10.65-$3.50

Key Financial Metrics

Fiscal Year (JUNE)	2006E	2007E	2008E
EPS	($0.12)	$0.09	$0.78
P/E Ratio	NM	NM	8.9x
Cash Flow per Share	$0.05	$0.25	$1.42
P/CF Multiple	NM	NM	4.9x
EBITDA ($MM)	$1.3	$10.7	$44.8
TEV/EBITDA	NM	21.0x	5.0x

Indicated Dividend	$0.00
Dividend Yield	0%
Average Daily Volume (000)	145
Market Capitalization ($MM)	$185
Shares Outstanding (MM)	26.8
Closely Held Shares (fully diluted mm)	8.7
Book Value per Share	$1.51
Net Debt/Total Capitalization	48%
Relative Volatility (Beta)	1.0
Net Asset Value per Share	$12.57
Price/NAV	55%
Long Term Debt ($MM)	$40.8
Total Enterprise Value ($MM)	$225
Dow Jones Industrial Average	11,382

Event: Initiating Coverage with a Buy rating and $10.50 price target.

- **Cano's Differentiating Factor is Tertiary Crude Oil Recovery—**In contrast to its higher risk peers, Cano Petroleum's growth is based on low risk acquisitions of mature crude oil fields.
- **Injection of Chemicals Captures Bypassed Crude Oil—**To capture bypassed reserves, Cano utilizes existing field infrastructure and injects chemical alkaline surfactant polymers (essentially engineered soap) to mobilize entrained crude oil. If successful, Cano may capture an additional 15%-25% of original oil in place (OOIP).
- **Inexpensive Based on NAV—**CFW is trading at a 45% discount to our estimated NAV of $12.57 per share.
- **Investors Getting Free Ride on Unbooked Reserves—**Cano has identified 91 MMboe of unrisked unbooked reserve potential worth $1.3 billion or about $48/share (Valued at $14.30/boe).

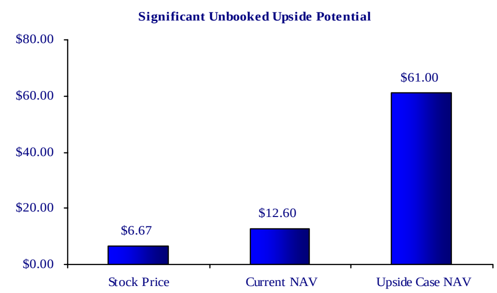
Cano Petroleum is a small-cap Exploration and Production company with a principal focus on secondary and enhanced oil recovery operations. The company's focus on mature onshore U.S. oil fields mitigates many of the risks associated with conventional oil and gas drilling. Cano's unique approach positions the company add significant quantities of crude oil reserves at both low risk and low cost

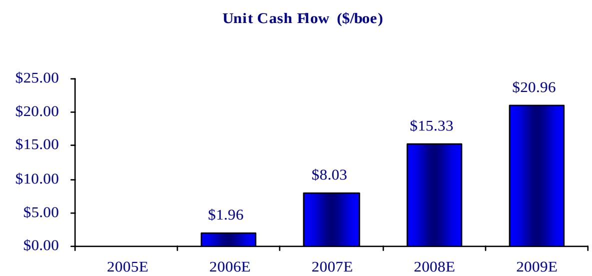
See page 23 for important disclosures and analyst certification.

Why Buy Cano Petroleum?

1) **Upside Potential—**The Market has undervalued Cano at $6.92 per share while our base case unescalated Net Asset Value per Share is calculated at $12.57 per share. After conversion of the company's probable and possible reserves to proved status, NAV could increase to $61.00 per share. Due to rising commodity prices, unit cash flow per boe is anticipated to increase from an estimated $1.96 in 2006 to $20.96 in 2009E

Exhibit 1: Steady Growth in Reserve Value (SEC PV10) and Unit Cash Flow

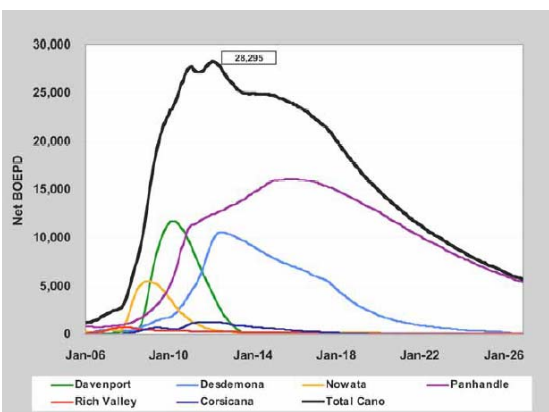


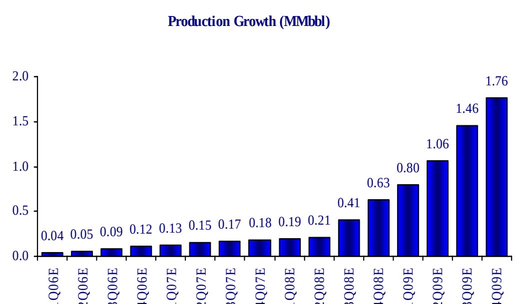


Source: Company Data and Dahlman Rose & Co estimates

2) **Visible Growth Through 2011—**Tertiary production growth is shown below.

Exhibit 2: Predictable Growth





Source: Company Data

Why Buy Cano Petroleum?

3) Efficient Operations Model—focuses on Secondary and Tertiary Enhanced Oil Recovery (EOR) techniques to extract additional oil from mature fields with marginal production that still contain significant reserves.

4) Successful Acquisition History—The company's acquisition targets are proven, mature oil fields that possess significant proved reserves, as well as a high ratio of probable reserves. Since 2004, Cano has acquired 40 MMboe of proved reserves and up to 91 MMboe of Probable reserves for $64 million or $1.60 boe (proved). The company has identified up to 91 MMboe of probable reserves which should further reduce unit acquisition costs and provide future growth.

5) Low Risk Development Drilling Upside—Cano's properties consist of low risk mature oil and gas fields that are at the end of their primary or secondary lives. The assets have significant proved reserves and a high ratio of probable reserves and demonstrate significant upside potential for increased production using secondary and EOR methods of recovery.

6) No Exploration Risk—Cano's portfolio is comprised of mature fields with proved reserves and production growth is not dependent on high cost exploration drilling.

7) Low Re-Investment Risk Due To Rich Drilling Inventory—Cano currently has a deep inventory of low risk onshore Secondary and EOR development drilling locations.

8) Production Growth Assured From Development Drilling Program—The Company's properties expose Cano to 91 MMboe of unrisked, unbooked reserve potential.

9) Efficient Operator—CFW operates 97% of its reserve base, allowing the company to control the timing, activity, and cost of their projects. The company plans to spend approximately $14 million on development and exploration projects in 2006.

10) Inexpensive Based on Net Asset Value –Cano is trading at only 55% of our stated NAV of $12.57 share.

12) Inexpensive Based on Trading Multiples –Cano Petroleum is trading at 2008E P/CF multiple of 4.9x

Company Profile

Cano utilizes Secondary and Enhanced Oil Recovery ("EOR") methods to increase production and reserves at its existing properties, and to acquire domestic, mature oil fields which possess significant proved reserves, as well as a high ratio of probable reserves. This method eliminates exploration risks and the associated costs.

Corporate Strategy

Most independent producers grow by the Standard Acquisition/Exploitation model. In this process, reserves are commonly acquired from major oil companies whose high finding costs have caused them to divest the reserves. Acquired reserves are generally in the vicinity of the ongoing operations of the acquiring company or are somehow a strategic fit. Newly acquired reserves are then assimilated into the company's operating plan, assigned a production budget, and are continually assessed for economic viability through the depletion process. Once determined uneconomical to produce, the reserves are again divested. Cano seeks to acquire this type of (mature) reserves.

Acquire Producing Properties with Upside Potential

Cano seeks to acquire currently producing properties with reserve upside and development drilling opportunities. The company has a successful track record of reserve growth through acquisition. Cano's acquisition history is detailed below:

Exhibit 3: Acquisition History

Acquisition Name	Date	Acquisition Price ($MM)	Acreage	WI (%)	Proved Reserves Acquired (MMboe) PDP	PUD	Total	Probable	Acquisition Price ($boe)
Panhandle	11/05	$50.0	20,000	100%	5.1	29.4	34.5	63.0	$1.45
Desdemona (Square One)	3/05	$7.6	10,300	100%	0.3	1.6	2.0	24.4	$3.83
Rich Valley (Ladder)	7/04	$2.2	4,500	83%	0.6	0.2	0.8	0.9	$2.82
Nowata	9/04	$2.6	2,601	100%	1.5	0.0	1.5	4.7	$1.69
Davenport	5/04	$1.7	2,178	100%	0.5	0.0	0.5	10.5	$3.41
Putnam	11/05	---	341	---	0.7	$0.0	0.7	1.6	---
Total		**$64.1**	**39,920**	**97%**	**8.8**	**31.2**	**40.0**	**105.1**	**$2.64**

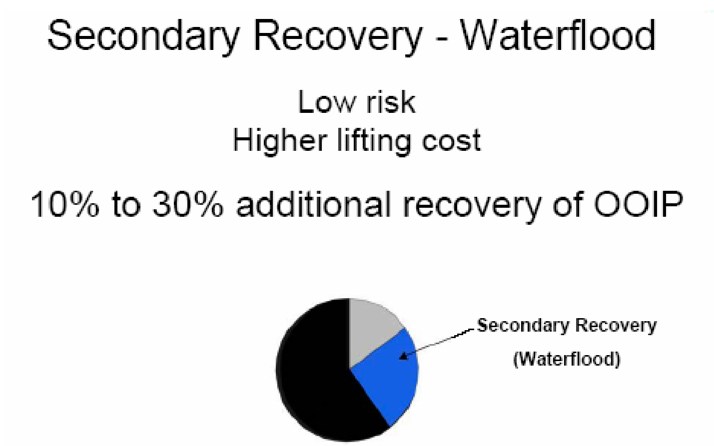
Source: Company Data

Focus on Secondary and Enhanced Oil Recovery (EOR)

Cano utilizes Secondary (Waterflood) and Enhanced Oil Recovery (EOR) techniques to produce additional oil from mature, onshore domestic oil fields. Average Primary Recovery operations yield only 10-15% of oil in place. With Secondary Recovery technology, an additional 15-25% is possible. Tertiary Recovery (EOR) produces yet another 15-25% of oil in place within a reservoir.

Secondary Oil Recovery involves the injection of water into the reservoir to induce a driving force to move out the oil (water flooding). To increase the recovery rates, new processes have been developed using gases like carbon dioxide, nitrogen (nitrogen flooding) or methane.

Exhibit 4: Secondary Recovery



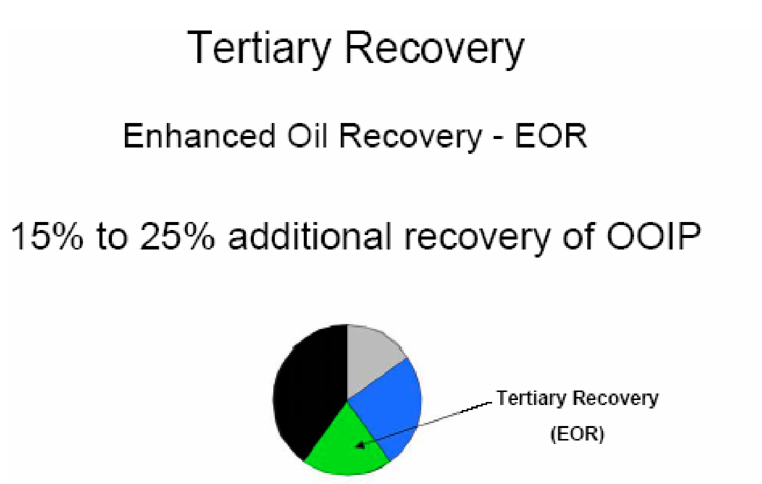
Source: Company Data

Enhanced Oil Recovery (EOR) Program

Cano's operating strategy is designed to create new reserves, grow production, and increase Net Asset Value through its Enhanced Oil Recovery (EOR) program. EOR is focused on recovery of oil that remains in ground after primary and secondary recovery methods are no longer economical. Primary production methods access natural reservoir pressure to recover crude oil, and are effective to produce only 10%-15% of the original oil in place (OOIP). When there is insufficient reservoir pressure to harvest the remaining oil, Secondary Recovery (SR) methods are then employed. Waterflooding is the most widely used SR method. High pressure Injector Wells pump water into the reservoir to facilitate more flow into the wellbore, and are capable of producing an additional 10%-30% of OOIP. After Primary and Secondary Recovery operations are completed, as much as 55% of OOIP may remain in the reservoir. Tertiary Recovery, or Enhanced Oil Recovery (EOR), remains the sole method available to continue to produce the reservoir. Cano is one of the very few independent producers which specialize in EOR methodology.

Tertiary Oil Recovery (EOR) is the injection of surfactants to reduce interfacial tension between the oil and water phases, thus allowing the recovery of oil trapped in smaller pores (surfactant flooding). Cano's Alkaline-Surfactant-Polymer (ASP) flooding technique employs waterflooding with alkaline additives, which prevent reservoir rock from absorbing the surfactant additive which separates the oil from the reservoir rock, and allows the polymer to spread the flow through more of the rock.

Exhibit 5: Tertiary Oil Recovery



Source: Company Data

ASP has been successful in recovering an additional 15%-25% of OOIP. ASP is expensive, almost \$12.00-\$15.00 bbl, but in the continued \$50-\$60 crude oil price environment, ASP can be an attractive alternative to the high costs associated with the exploration process and ensuing drilling risk

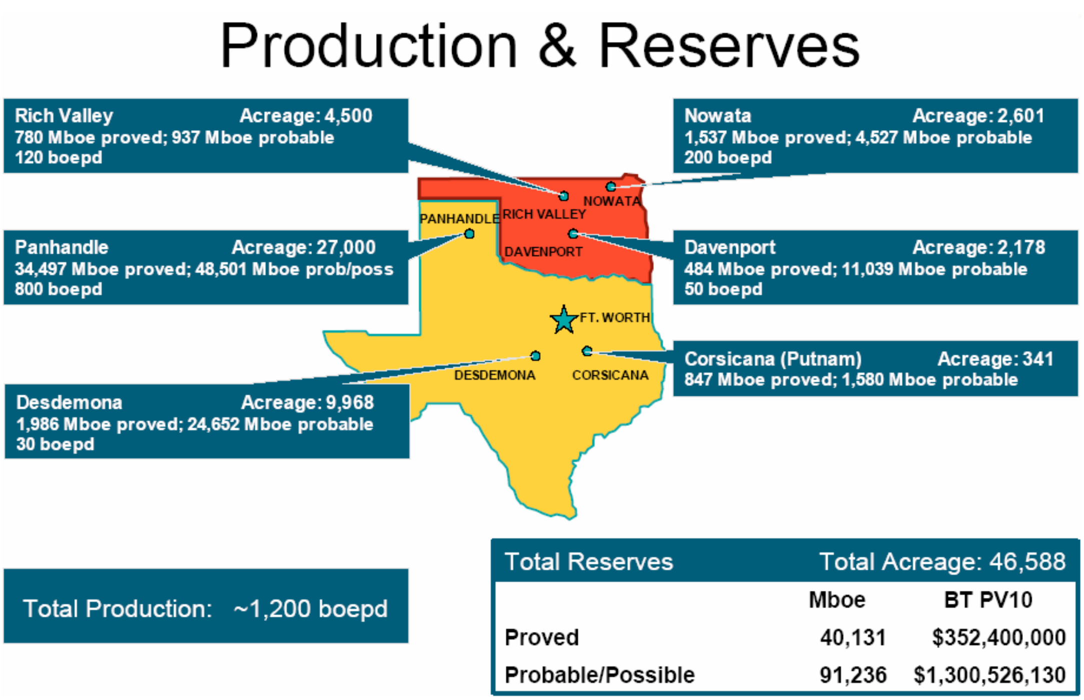
Oil & Gas Reserves

At year end 2005, the company reported 40.1 MMboe of proved reserves, 19% of which are proved producing reserves, 5% are proved non-producing reserves and 76% (32.4 MMboe) are proved undeveloped. The recently acquired Panhandle Field comprises 97% (29.4 MMboe) of the company's proved undeveloped reserves.

Core Areas of Operation

The company's core areas of operations are located onshore U.S., primarily in four fields in Texas and Oklahoma. During 2004, Cano acquired three fields in Texas and Oklahoma: Davenport, Desdemona, and Nowata. During 2005, the company acquired its Panhandle and Corsicana (Putnam) properties. Cano plans to spend $14.3 million on capital expenditures over the next 12 months allocated to its six areas of operations.

Exhibit 6: Core Operating Areas

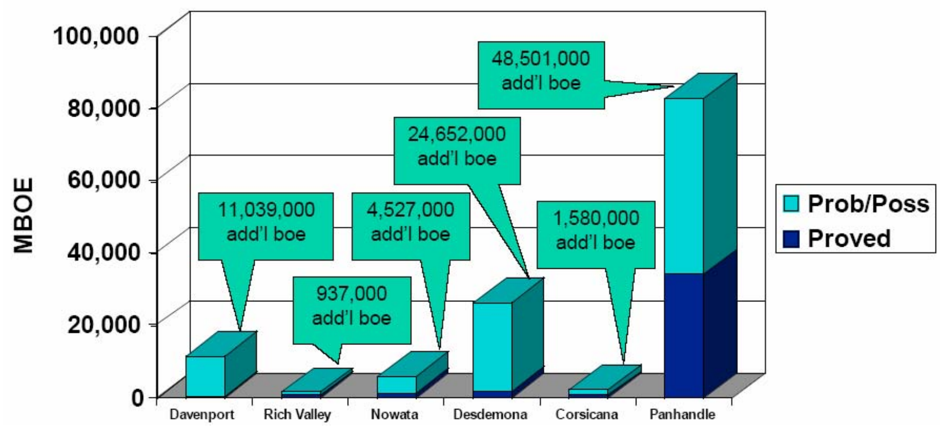


Source: Company Data

Project Inventory

The company has an impressive slate of drilling opportunities. Including proved and probable reserves, Cano could convert as much as 91 MMboe of Probable reserves to Proved status.

Exhibit 7: Operational Focus

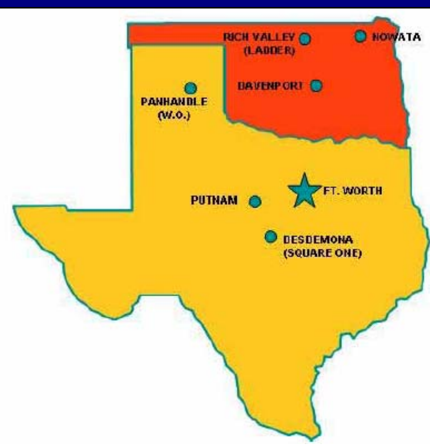


Source: Company Data

Panhandle Field (100% WI)

In 2005, Cano acquired W.O. Energy of Nevada, Inc. (WO Energy-NR) for $57.4 million, including the 20,000 acre Panhandle Field. The field has 34.5 MMboe of proved reserves (86% of the company's total reserve base) and 50% of the company's total acreage. Panhandle contains as much as 48.5 MMboe Probable or Possible reserves. Current Production from the field is 800 boed. Cano plans to spend $2 million in 2006 to implement a waterflood pilot program at Panhandle and expects initial results by year end 2006.

Exhibit 8: Panhandle Field



Source: Company Data

Davenport Field (100% WI)

The company's 2,178 acre Davenport Unit property is located in Lincoln County, Oklahoma where crude oil is produced from an average depth of 3,300 feet. Current production from the field is 50 boed. To date, 484 Mboe of crude oil has been proved, with an estimated 11 MMboe recoverable. After analyzing results, the company plans to commence a surfactant-polymer pilot program by year-end 2006.

Exhibit 9: Davenport Field

June 05	June 06		June 07	June 08	Mar 10
Engineering, Geological SP Lab Studies SHE Upgrades	Execute SP Pilot	Pilot Response Prob → Proved		SP Field-wide	Peak
484 Mboe Proved			11,039 (Incremental)		
30 BOEPD	50		147	236	11,748

Source: Company Data

Nowata Field (100% WI)

Acquired in 2004 for $2.5 million, the field encompasses 2,601 acres in Nowata County, Oklahoma where 228 wells currently produce a combined average 200 boed from an average depth of 650 feet. Proved reserves at Nowata as of June 30, 2005 were 1.5 MMboe. Test results indicate additional recovery potential of 4.5 MMboe (22% of original oil-in-place).

Cano plans a surfactant-polymer flooding (EOR) recovery program to commence by mid-2006, which could increase production to 4,000 bpd within 18-24 months. The company has budgeted $4 million in 2006 to develop the field.

Exhibit 10: Nowata Field

June 05	June 06		June 07	June 08	Jan 09
Engineering and Geo. Study SHE Upgrades	Execute SP Pilot	Pilot Response Prob → Proved		SP Field-wide	Peak
1,537 Mboe Proved			4,527 (Incremental)		
200 BOEPD	216		410	4,372	5,495

Source: Company Data

Desdemona Field (100% WI)

Cano acquired Square One Energy, Inc for $7.5 million in March, 2005. Acquired properties are located in 9,968 acres in Erath, Comanche and Eastland counties in Texas, where the Desdemona Field had an estimated 92 MMbbl of original oil in place (OOIP). Approximately 17 MMbbl of oil have been recovered to date using primary production methods, with an estimated 2 MMbbl of proved reserves and an estimated 24.5 MMboe of probable reserves in place at June 30, 2005.

Currently, 34 wells produce approximately 30 boed at an average depth of 2,850 feet. Cano began pilot waterflood operations in May 2005 and expects an initial response in May 2006. If successful, Cano will waterflood the entire field in 2006. The company believes that successful secondary recovery methods could result in the field producing approximately 1,400 boed by the end of fiscal year 2009 and has budgeted $3.7 million for Desdemona in 2006.

Exhibit 11: Desdemona Field

June 05	June 06		June 08	June 09	June 10	June 12
Studies SHE Upgrade WF Pilots	WF Pilot Response Prob → Proved	WF Expansion SP Lab Study	Full WF Resp. SP Pilots Prob → Proved	SP Field-wide		Peak
1,986 Mboe Proved	6,233			18,419 (Incremental)		
30 BOEPD	212			1,383	2,329	10,590

Source: Company Data

Rich Valley Field (83% WI)

Cano acquired working interests in 51 wells located in the Rich Valley Field in Grant County, Oklahoma for $2.2 million. The 4,500 acre field has proved reserves of approximately 780 Mboe, comprised 37% of crude oil and 63% of natural gas. Probable reserves are estimated at approximately 937 Mboe. Current production from the field is 120 boed. Cano has identified seven infill development locations and plans to spend approximately $3.7 million in 2006 to drill six infill horizontal development wells and evaluate the prospect for waterflood potential.

Corsicana (Putnam) Field

The company acquired 341 acres at Putnam Field where Cano believes it will apply surfactant polymer flooding and plans to conduct a laboratory evaluation to determine the optimal mix for a surfactant-polymer injection, followed by either a pilot or full-lease implementation of surfactant-polymer technology.

Development Plan & Capital Budget

The company plans to spend $14.3 million in 2006 to develop its core properties and make accretive acquisitions. Cano's development plan for fiscal year 2006 calls for a comprehensive infill drilling program, three surfactant-polymer evaluations and a waterflood pilot program as detailed below:

- implement waterflood at Desdemona
- launch of Nowata Surfactant Polymer (SP) project
- apply SP at Davenport
- horizontal drill at Rich Valley
- horizontal drill and apply SP at Putnam
- waterflood pilot at Panhandle
- acquire additional properties that fit business model

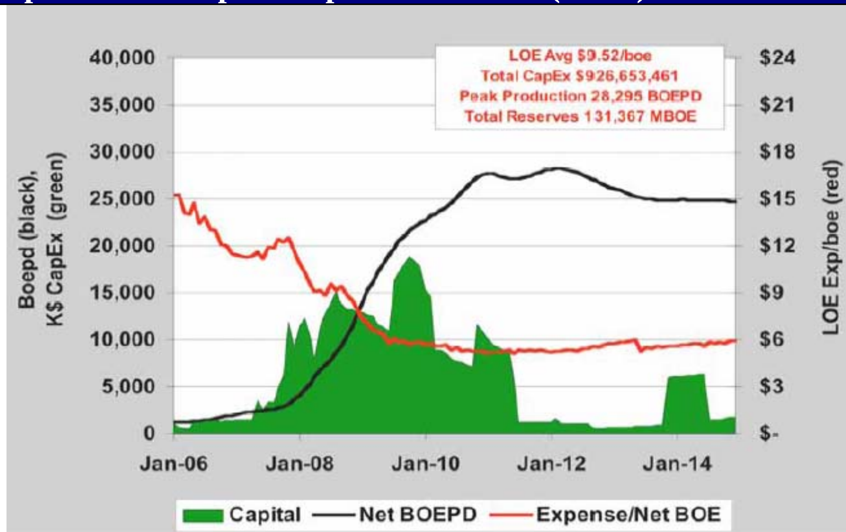
Exhibit 12: Development and Capital Expenditures Plan ($MM)

	Current Production	Development Capital ($/MM)				Estimated Production (Mboe)			
Acquisition Name	**(Boed)**	**2006**	**2007**	**2008**	**2009**	**2006**	**2007**	**2008**	**2009**
Panhandle	800.0	$0.0	$10.5	$39.8	$45.5				
Nowata	206.0	$2.7	$12.3	$32.5	$13.8	58.0	440	3956	4300
Rich Valley (Ladder)	106.0	$7.1	$3.6	$0.0	$0.0	200.0	250	250	250
Desdemona (Square One)	49.0	$2.9	$16.6	$17.6	$52.7	354.0	200		
Davenport	39.0	$1.6	$2.1	$50.9	$58.2	47.0	225	7622	8000
Putnam	---	$0.0	$5.8	$7.6	$8.6	48.0			
Total	**1,200.0**	**$14.3**	**$50.9**	**$148.5**	**$178.8**	**707.0**	**1,115.0**	**11,828.0**	**12,550.0**

Source: Company Data and Dahlman Rose & Co estimates

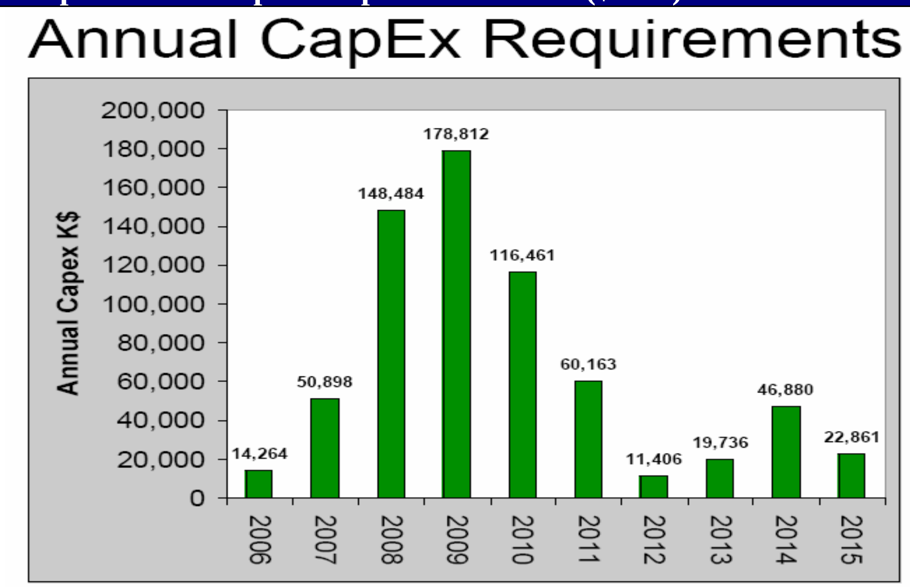
Development Plan & Capital Budget

Exhibit 13: Development and Capital Expenditures Plan ($MM)



Source: Company Data and Dahlman Rose & Co estimates

Exhibit 14: Development and Capital Expenditures Plan ($MM)



Source: Company Data and Dahlman Rose & Co estimates

Net Asset Value

Our Net Asset Value is based on our discounted cash flow model, and we calculate the company's Net Asset Value at $12.57 per share. Commodity prices used for our analysis for 2006 were $58.00/bbl for crude oil price and $9.00/Mcf for natural gas and for 2007 were $60.50/bbl for crude oil price and $9.25/Mcf for natural gas.

Exhibit 15: Net Asset Value

Cano Petroleum

Net Asset Value

Proven Reserves at Year-end 2005 (Includes Panhandle Acquisiton)	Liquids (MMbbl)	Natural Gas (Bcf)	Equivalent (mmboe)	Escalated Value ($ MM)	w/Upside Escalated Value ($ MM)	SEC PV 10 Value ($ MM)
Existing Reserves	36.0	24.0	40.0	$496.6 (1)	$496.6 (1)	$473.3 (1a)
Less: Development Costs				($120.9)	($120.9)	($120.9)
Net Existing Reserves				$375.6	$375.6	$352.4
Proved Undeveloped	30.6	21.6	205.2			
Proved Undeveloped (%)	85%	90%	513%			
Net Reserve Value	**36.0**	**24.0**	**40.0**	**$375.6**	**$375.6**	**$352.4**
Proved Undeveloped	30.6	21.6	205.2			
Proved Undeveloped (%)	85%	90%	513%			
Unrisked Upside Reserve Potential (91 mmboe @ IGV of $14.29/boe)				$0.0	$1,300.4 (1b)	$0.0
Unproved Properties				$0.0	$0.0	$0.0
CO_2 Properties & Equipment				$0.0	$0.0	$0.0
Working Capital				$3.3	$3.3	$3.3
Total Assets				**$378.9** (2)	**$1,679.3** (2)	**$355.7**
Long Term Liabilities						
Long Term Debt				($40.8)	($40.8)	($40.8)
Total Long-Term Liabilities				**($40.8)** (2)	**($40.8)** (2)	**($40.8)**
Net Asset Value				**$338.2**	**$1,638.6**	**$315.0**
Diluted Shares Outstanding (MM)				26.9 (2)	26.9 (2)	26.9
Net Asset Value Per Share				**$12.57**	**$60.91**	**$11.71**

Notes:

(1) Escalated proved reserve case based on Dahlman Rose& Co commodity price deck which assumes:
Commodity prices & expenses escalated 1% per annum.

	Benchmark ($/bbl)	Realized ($/bbl)	Benchmark ($/Mcf)	Realized ($/Mcf)
2006	$58.00	$54.52	$9.00	$8.37
2007	$60.50	$56.87	$9.25	$8.60

(1a) SEC PV 10 (BFIT) (Crude Oil $56.54/bbl, Natural Gas - $6.94/Mcf)
(1b) Company estimates
(2) Balance sheet as of December 31, 2005, adjusted for acquisitions

Source: Company Data & Dahlman Rose & Co Estimates

Balance Sheet

At Year End 2005, the company had $1.6 million in cash and $40.8 million in long-term debt, resulting in a low net debt/capitalization ratio of 50%.

Exhibit 16: Balance Sheet

	12/31/05	6/30/05
Assets:		
Cash	$1.593	$0.145
Current Assets	$5.258	$0.756
Oil and Gas Properties, Net	$105.353	$16.215
Other Assets	$7.829	$0.608
Total Assets	**$118.440**	**$17.578**
Liabilities and Shareholders' Equity:		
Current Liabilities	$1.939	$1.154
Total Long Term Debt:	$40.750	$0.000
Deferred Income Taxes	$33.675	$0.000
Other Liabilities	$1.651	$1.033
Stockholders' Equity	$40.425	$15.391
Total Liabilities and Shareholders' Equity	**$118.440**	**$17.578**
Total Book Capitalization	**$81.175**	**$15.391**

Source: Company Data and Dahlman Rose & Co estimates

Price Target Calculation

The company's price target is based on several metrics, including P/CF, TEV/EBITDA and P/NAV. Our 12-18 month price target is $10.50 and is based primarily on a 20% discount to our calculated NAV of $12.57 per share. Additionally, our price target is based on a P/CF multiple of 7.4x and a 2008E estimated per share cash flow of $1.42.

Exhibit 17: Price Target

Estimated Trading Multiple	Current NAV	Implied Stock Price	Estimated Trading Multiple	CFPS 2008E	Implied Stock Price
0.3x	$12.57	$4.21	4.9x	$1.42	$6.96
0.4x	$12.57	$5.47	5.4x	$1.42	$7.67
0.5x	$12.57	$6.73	5.9x	$1.42	$8.37
0.6x	$12.57	$7.99	6.4x	$1.42	$9.08
0.7x	$12.57	$9.24	6.9x	$1.42	$9.79
$\boxed{0.8x}$	$\boxed{\$12.57}$	$\boxed{\$10.50}$	$\boxed{7.4x}$	$\boxed{\$1.42}$	$\boxed{\$10.50}$
1.0x	$12.57	$12.57	7.9x	$1.42	$11.21
1.1x	$12.57	$13.83	8.4x	$1.42	$11.92
1.2x	$12.57	$15.09	8.9x	$1.42	$12.63
1.3x	$12.57	$16.34	9.4x	$1.42	$13.33
1.4x	$12.57	$17.60	9.9x	$1.42	$14.04

Source: Company Data and Dahlman Rose & Co Estimates

Comparative Analysis

A comparative analysis using resource based companies illustrates that the company's 2008E P/CF multiple is actually quite a bit lower than its peer group average P/CF multiple for 2008E of 10x.

Exhibit 28: Comparative Analysis

						P/E					P/CF			
Resource Based Peer Group	**Ticker**	**Rating**	**Stock Price**	**S/O (MM)**	**Mkt Cap ($MM)**	**2005**	**2006E**	**2007E**	**2008E**		**2005**	**2006E**	**2007E**	**2008E**
Carrizo Oil & Gas	CRZO	Buy	$28.39	24.0	$681	35.9x	36.4x	27.3x	28.1x		13.9x	11.4x	9.2x	9.4x
Denbury Resources	DNR	Buy	$31.98	115.0	$3,678	23.0x	17.9x	16.3x	15.0x		11.1x	9.2x	8.5x	7.8x
Encana Corp.	ECA	NR	$50.72	855.0	$43,366	13.9x	13.3x	13.5x	13.9x		6.2x	6.2x	5.8x	6.0x
EOG Resources	EOG	NR	$70.44	243.0	$17,117	13.5x	13.5x	12.8x	13.2x		7.2x	6.6x	6.1x	6.3x
Quicksilver Resources	KWK	NR	$41.30	76.0	$3,139	38.2x	30.8x	26.5x	27.3x		18.4x	14.0x	12.1x	12.5x
Southwestern Energy	SWN	NR	$36.14	168.0	$6,072	38.0x	33.5x	24.1x	24.8x		17.8x	14.6x	11.2x	11.6x
Ultra Petroleum Corp.	UPL	NR	$63.05	155.0	$9,773	44.4x	38.7x	28.1x	29.0x		25.6x	20.7x	15.9x	16.4x
Total/Average Resource Based					**$83,825**	**29.6x**	**26.3x**	**21.2x**	**21.6x**		**14.3x**	**11.8x**	**9.8x**	**10.0x**
Cano Petroleum	**CFW**	**Buy**	**$6.91**	**26.8**	**$185**	**NM**	**NM**	**NM**	**8.9x**	**#**	**NM**	**NM**	**NM**	**4.9x**

Source: Company Data and Dahlman Rose & Co estimates *Includes the effects of hedging

Key Risks to Price Target

Given a high correlation to commodity prices, the company's stock could fall short of our price target if commodity prices fall sharply for a prolonged period of time. Moreover, companies that fail to achieve targeted production growth, experience a higher than expected cost structure or are required to take a reserve write down will likely not meet our price target. The oil and gas industry contains significant risks such as well blowouts, regulatory changes and cost overruns. Geology is an inexact science and lower than expected drilling success could adversely impact forecasts for earnings, cash flow and asset value.

In March 2006, Cano Chairman and CEO Jeff Johnson helped Cano's subsidiary, W.O. Operating Company, direct its employees' efforts in response to massive wildfires in the Texas Panhandle. Three weeks later, Cano and three of its subsidiaries were sued by the Burnett Trust, owners of the Four Sixes Ranch, as a possible cause of the fires. The suit was filed only 11 days after the fire started and before any state or federal agency had issued a report. The company and its subsidiaries have spent the past 30 days focusing on "helping things get back to normal" for employees. Although production in the Panhandle field is now at 95% of normal operations, the company is deeply concerned about its employees and all those affected by the fires and current conditions in the Texas Panhandle.

Key Risks to Price Targets and Foreign Supply of Oil and Natural Gas

- The ability of members of the Organization of Petroleum Exporting Countries and other producing countries to agree upon and maintain oil prices and production levels;
- Political instability, armed conflict or terrorist attacks, whether or not in oil or natural gas producing regions
- The level of consumer product demand; the growth of consumer product demand in emerging markets, such as China
- Labor unrest in oil and natural gas producing regions; weather conditions; the price and availability of alternative fuels
- The price of foreign imports
- Worldwide economic conditions
- The availability of liquid natural gas imports, drilling equipment and services may delay operations or increase costs.
- Cano is a rapidly growing, newly minted public company. As with many such companies, the transition from a private entity to a public entity can be a difficult process and can have a negative effect on performance.
- Successful conversion of Probable and Possible Reserves to Proved Reserves is dependent on the successful implementation of the company's Enhanced Oil Recovery technique (water floods with alkaline surfactant polymer flooding) and the strategic advantage that is achieved with this technology

Corporate Officers

S. Jeffrey Johnson, (CEO) and Chairman. Mr. Johnson was appointed CEO on May 28, 2004 and Chairman on June 25, 2004. Prior to joining Cano, Mr. Johnson served as CEO of Cano Energy Corp. 2001-2004, and CEO of Scope Operating Company 1997-2004.

Michael J. Ricketts, (CFO) and Principal Accounting Officer—Mr. Ricketts was appointed CFO in 2004. For the previous 15 years, Mr. Ricketts was employed by TNP Enterprises, Inc. where he served as Director, Treasury 2003-2004, Director, Business Development 2002-2003, and Controller and Assistant Controller 1998-2002. Mr. Ricketts is a Certified Public Accountant.

Thomas D. Cochrane, Executive Vice-President of Engineering—Mr. Cochrane was appointed Executive V.P. Engineering in 2005. Prior to that, Mr. Cochrane served as Executive V.P. of Oil & Gas Operations 2004-2005. Prior to joining Cano, Mr. Cochrane spent his entire 16 year career with ExxonMobil Oil as an Operations Engineer (Waterfloods and CO2 floods) (1988-1998), Maintenance Foreman of the Aneth area (1998-1999), Production Superintendent of the Aneth Area (1999-2000), Reservoir Engineer and Reservoir Engineering Mentor for water floods and CO2 floods (2000-2004), and served on Exxon’s U.S. Drill Well Review Team approving technical work supporting drilling funding (2003-2004).

James K. Teringo, Jr., Vice President, General Counsel and Corporate Secretary—Mr. Teringo was appointed to V.P., General Counsel and Corporate Secretary in 2005. Mr. Teringo was Assistant General Counsel for Panda Energy International, Inc (1999-2003).

Donnie D. Dent, Director—Mr. Dent was appointed to the Board of Directors in 2004. Previously, Mr. Dent was President and CEO of RUSA Oil, Ltd. (1995-1998) engaged in the exploration and development of two large oil fields in Siberia. Prior to that, Mr. Dent was a General Director of a Russo-American oil and gas joint venture (1991-1998), President of Box Energy Corp., Executive and V.P. at OKC Limited Partnership. Mr. Dent has also served as General Counsel at Mesa Petroleum Corp.

Gerald W. Haddock, Director—Mr. Haddock was appointed to the Board of Directors in 2004, and is currently a Director and Audit Committee Chairman of ENSCO International, Inc. He is also the founder and President of Haddock Enterprises, LLC, an entrepreneurial development company concentrating in oil and gas and real estate. He formerly served as President and CEO of Crescent Real Estate Equities.

Randall Boyd, Director—Mr. Boyd was appointed to the Board of Directors in 2004. Prior to that, Mr. Boyd was a Global Executive V.P of LSG Sky Chefs, and has also served as a member of the Global Executive Board of LSG Sky Chefs, and as Chairman of LSG.Skychefs’ Executive Board.

Dr. Jim Underwood, Director—Dr. Underwood was appointed Director in 2005, and has also served as the V.P. of Cornerstone Bank and as V.P. of Heritage National Bank. He is also currently a professor at Dallas Baptist University.

Morris B. “Sam” Smith, Director—Mr. Smith was appointed a Director and Chairman of the company’s Audit Committee in 2005. Mr. Smith is currently a consultant for Ulterra Drilling Technologies (formerly RBI International), where he was previously (CFO). He has also acted as Interim (CFO) of Stroud Oil Properties. Mr. Smith was previously a Board Member and Audit Committee Chairman for Belden & Blake Corporation From 2000-2003, Mr. Smith was Executive V.P., CFO and Treasurer of Encore Acquisition Company, and Corporate Secretary of Encore Acquisition Company (2002-2003). Mr. Smith was V.P. Finance and CFO for Union Pacific Resources (1996-2000)

Financial and Operating Statistics

Exhibit 18: Estimated Production

	2005	2006E	2007E	2008E	2009E	1Q06	2Q06	3Q06E	4Q06E
Production:									
Daily Crude Oil Production (bpd):									
Domestic	244	530	1,256	3,406	12,969	304	391	600	825
Daily Crude Oil Production (bpd):	**244**	**530**	**1,256**	**3,406**	**12,969**	**304**	**391**	**600**	**825**
Total Crude Oil Production (MMbbls):	0.089	0.194	0.459	1.243	4.734	0.028	0.036	0.054	0.075
Annual Growth Rate %		NM	137%	171%	281%				
Daily Natural Gas Production (Mcfd):									
Domestic	493	1,716	2,813	3,323	5,900	457	1,207	2,400	2,800
Daily Natural Gas Production (Mcfd):	**493**	**1,716**	**2,813**	**3,323**	**5,900**	**457**	**1,207**	**2,400**	**2,800**
Total Natural Gas Production (Bcf):	0.180	0.626	1.027	1.213	2.154	0.042	0.111	0.216	0.255
Annual Growth Rate %									
Daily Crude Oil Equivalent Production (boed):	**326.0**	**816.1**	**1,725.0**	**3,960.0**	**13,952.1**	**380.4**	**592.4**	**1,000.0**	**1,291.7**
Daily Natural Gas Equiv. Prod. (Mcfed):	1,956.2	4,897	10,350.0	23,760.0	83,712.5	2,282.6	3,554.3	6,000.0	7,750.0
Total Crude Oil Equivalent Prod (MMboe):	0.119	0.298	0.630	1.445	5.093	0.035	0.055	0.090	0.118
Total Natural Gas Equivalent Prod (Bcfe):	0.714	1.787	3.778	8.672	30.555	0.210	0.327	0.540	0.705
Annual Growth Rate %		150%	111%	130%	252%				
% Crude Oil	75%	65%	73%	86%	93%	80%	66%	60%	64%
% Domestic	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Company Data and Dahlman Rose & Co Estimates

Exhibit 19: Pricing

	2005	2006E	2007E	2008E	2009E	1Q06	2Q06	3Q06E	4Q06E
Benchmark Commodity Prices:									
WTI NYMEX Crude Oil Price ($/bbl)	$41.44	$60.70	$58.30	$61.25	$62.25	$63.02	$60.02	$63.33	$56.45
Henry Hub Natural Gas Price ($/Mcf)	$5.91	$9.64	$9.54	$9.30	$9.38	$9.90	$12.33	$7.70	$8.65
Crude Oil Pricing ($/bbl):									
WTI NYMEX Crude Oil Reference ($/bbl)	$41.44	$60.70	$58.30	$61.25	$62.25	$63.02	$60.02	$63.33	$56.45
Differential	$6.92	($3.67)	($2.56)	($2.77)	($3.04)	($2.66)	($2.88)	($3.04)	($2.71)
Realized Crude Oil Price	**$48.36**	**$57.04**	**$55.74**	**$58.48**	**$59.21**	**$60.36**	**$57.14**	**$60.29**	**$53.74**
% of WTI NYMEX	117%	94%	96%	95%	95%	96%	95%	95%	95%
Realized Crude Oil Price w/Hedge	**$48.36**	**$57.04**	**$56.57**	**$58.48**	**$59.21**	**$60.36**	**$57.14**	**$60.29**	**$53.74**
% of WTI NYMEX	117%	94%	97%	95%	95%	96%	95%	95%	95%
Natural Gas Pricing ($/Mcf):									
Henry Hub Natural Gas Reference ($/Mcf)	$5.91	$9.64	$9.54	$9.30	$9.38	$9.90	$12.33	$7.70	$8.65
Differential	$0.34	($2.70)	($1.91)	($1.86)	($1.88)	($3.68)	($3.36)	($1.54)	($1.73)
Realized Natural Gas Price	**$6.25**	**$6.95**	**$7.63**	**$7.44**	**$7.49**	**$6.22**	**$8.97**	**$6.16**	**$6.92**
% of Henry Hub	106%	72%	80%	80%	80%	63%	73%	80%	80%
Realized Natural Gas Price w/Hedge	**6.54**	**7.15**	**7.63**	**7.44**	**7.49**	**6.22**	**8.97**	**6.75**	**6.92**
% of WTI NYMEX	16%	12%	13%	12%	12%	10%	15%	11%	12%

Source: Company Data and Dahlman Rose & Co Estimates

Financial and Operating Statistics

Exhibit 20: Income Statement ($MM, except per-share data)

	2005	2006E	2007E	2008E	2009E	1Q06	2Q06	3Q06E	4Q06E
Income Statement									
Revenues ($MM)									
Oil and Gas Products	$5.481	$15.516	$33.774	$81.724	$296.410	$1.951	$3.053	$4.715	$5.798
Other	$0.000	$0.105	$0.000	$0.000	$0.000	($0.005)	$0.111	$0.000	$0.000
Total Revenues	**$5.481**	**$15.622**	**$33.774**	**$81.724**	**$296.410**	**$1.946**	**$3.163**	**$4.715**	**$5.798**
Expenses ($MM):									
Operating Costs	$2.730	$6.764	$14.468	$24.838	$54.290	$0.750	$1.240	$2.070	$2.703
Production Taxes	$0.343	$0.955	$2.104	$5.149	$18.674	$0.110	$0.192	$0.289	$0.365
G&A Expense	$3.150	$5.964	$6.400	$6.800	$7.200	$1.227	$1.686	$1.600	$1.450
Deferred Compansation Compensation	$1.679	$0.559	$0.000	$0.000	$0.000	$0.150	$0.147	$0.150	$0.113
Accretion of asset retirement obligations	$0.070	$0.107	$0.124	$0.124	$0.124	$0.021	$0.025	$0.031	$0.031
DD&A Expense	$0.495	$1.714	$3.303	$7.567	$26.684	$0.147	$0.280	$0.558	$0.729
Other	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Total Expenses	**$8.466**	**$16.063**	**$26.399**	**$44.478**	**$106.971**	**$2.404**	**$3.570**	**$4.698**	**$5.391**
Operating Income	**($2.985)**	**($0.441)**	**$7.375**	**$37.246**	**$189.438**	**($0.458)**	**($0.407)**	**$0.017**	**$0.407**
Interest Expense	$0.000	$2.034	$3.593	$3.593	$3.593	($0.000)	$0.237	$0.898	$0.898
Interest Income and Other	($0.012)	$1.636	$0.000	$0.000	$0.000	$0.0000	$1.636	$0.000	$0.000
Total Other Expense (Income)	**($0.012)**	**$3.669**	**$3.593**	**$3.593**	**$3.593**	**($0.000)**	**$1.872885**	**$0.898**	**$0.898**
Income (Loss) Before Income Taxes	**($2.973)**	**($4.111)**	**$3.782**	**$33.653**	**$185.845**	**($0.458)**	**($2.279536)**	**($0.882)**	**($0.491)**
Income Tax Rate	0%	32%	38%	38%	38%	0%	0%	38%	38%
Current Tax	$0.000	($0.130)	$0.359	$3.197	$17.655	$0.000	$0.000	($0.084)	($0.047)
Deferred Tax	$0.000	($1.184)	$1.078	$9.591	$52.966	$0.000	($0.793)	($0.251)	($0.140)
Total Tax Provision	**$0.000**	**($1.315)**	**$1.437**	**$12.788**	**$70.621**	**$0.000**	**($0.793)**	**($0.335)**	**($0.187)**
% Deferred	0%	90%	75%	75%	75%	0%	0%	75%	75%
Net Income Before Other Items	**($2.973)**	**($2.796)**	**$2.345**	**$20.865**	**$115.224**	**($0.458)**	**($1.487)**	**($0.547)**	**($0.305)**
Preferred Stock	($0.417)	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Reported Net Income to Common	**($3.390)**	**($2.796)**	**$2.345**	**$20.865**	**$115.224**	**($0.458)**	**($1.487)**	**($0.547)**	**($0.305)**
Non-recurring Items, Net	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Recurring Net Income to Common	**($3.390)**	**($2.796)**	**$2.345**	**$20.865**	**$115.224**	**($0.458)**	**($1.487)**	**($0.547)**	**($0.305)**
Reported EPS - Basic	($0.29)	($0.12)	$0.09	$0.78	$4.29	($0.03)	($0.06)	($0.02)	($0.01)
Recurring EPS - Basic	($0.29)	($0.12)	$0.09	$0.78	$4.29	($0.03)	($0.06)	($0.02)	($0.01)
Recurring EPS - Diluted	**($0.31)**	**($0.12)**	**$0.09**	**$0.78**	**$4.29**	**($0.03)**	**($0.07)**	**($0.02)**	**($0.01)**
Recurring CFPS - Basic	($0.23)	$0.05	$0.25	$1.42	$7.26	($0.01)	($0.01)	$0.04	$0.01
Recurring CFPS - Diluted	**($0.26)**	**$0.05**	**$0.25**	**$1.42**	**$7.26**	**($0.01)**	**($0.01)**	**$0.04**	**$0.01**
Average Shares Out - Basic (MM)	11.839	23.675	26.832	26.832	26.832	18.015	23.020	26.832	26.832
Average Shares Out - Diluted (MM)	11.839	23.675	26.832	26.832	26.832	18.015	23.020	26.832	26.832

Source: Company Data and Dahlman Rose & Co Estimates

Financial and Operating Statistics

Exhibit 21: Cash Flow from Operations and EBITDA ($MM)

	2005	2006E	2007E	2008E	2009E	1Q06	2Q06	3Q06E	4Q06E
Cash Flows From Operations									
Net Income to Common (After Preferred)	($3.390)	($2.796)	$2.345	$20.865	$115.224	($0.458)	($1.487)	($0.547)	($0.305)
Depreciation and Amortization	$0.495	$1.713	$3.303	$7.567	$26.684	$0.147	$0.279	$0.558	$0.729
Impairment of Oil & Gas Properties	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Deferred Taxes	$0.000	($1.184)	$1.078	$9.591	$52.966	$0.000	($0.793)	($0.251)	($0.140)
Unrealized Commodity Derivative Exp. (Gain)	$0.000	$2.936	$0.000	$0.000	$0.000	$0.000	$1.636	$1.300	$0.000
Cumulative Effect of Chg. of Acct. Principles	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Accretion of Asset Retirement Obligations	$0.070	$0.045	$0.000	$0.000	$0.000	$0.021	$0.025	$0.000	$0.000
Stock Compensation and Other	$0.144	$0.369	$0.000	$0.000	$0.000	$0.176	$0.194	$0.000	$0.000
Operating Cash Flow	**($2.681)**	**$1.083**	**$6.725**	**$38.023**	**$194.874**	**($0.115)**	**($0.146)**	**$1.060**	**$0.284**
Decrease (Increase) in Working Capital	$0.085	($5.906)	$0.000	$0.000	$0.000	($0.415)	($5.491)	$0.000	$0.000
Other	$2.095	$0.001	$0.000	$0.000	$0.000	$0.000	$0.001	$0.000	$0.000
Cash Flow From Operations	**($0.501)**	**($4.823)**	**$6.725**	**$38.023**	**$194.874**	**($0.530)**	**($5.637)**	**$1.060**	**$0.284**
Investing Activities:									
Acquisitions	($9.482)	($48.793)	$0.000	$0.000	$0.000	$0.000	($48.793)	$0.000	$0.000
Additions to Oil & Gas Properties	($1.646)	($8.259)	($26.970)	($85.804)	($160.615)	($0.455)	($1.486)	($3.000)	($3.318)
Additions to Furniture, Fixtures and Equip.	($0.464)	($0.487)	($0.800)	($0.800)	($0.800)	($0.262)	$0.175	($0.200)	($0.200)
Other	$0.866	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Cash Flow From Investing Activities	**($10.726)**	**($57.539)**	**($27.770)**	**($86.604)**	**($161.415)**	**($0.717)**	**($50.104)**	**($3.200)**	**($3.518)**
Free Cash Flow ($MM)	($11.227)	($62.361)	($21.045)	($48.581)	$33.459	($1.247)	($55.741)	($2.140)	($3.234)
Free Cash Flow Per Share ($/Share)	($0.948)	($2.63)	($0.784)	($1.811)	$1.247	($0.069)	($2.421)	($0.08)	($0.12)
Financing Activities:									
Proceeds From Borrowings	$0.000	$49.750	$17.000	$48.000	$5.000	$0.000	$40.750	$6.000	$3.000
Repayment of Borrowings	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Payment of Debt Issuance Costs	($0.055)	($0.685)	$0.000	$0.000	$0.000	$0.000	($0.685)	$0.000	$0.000
Proceeds from Issuance of Common Stock, net	$4.751	$18.370	$0.000	$0.000	$0.000	$18.461	($0.092)	$0.000	$0.000
Cash Flow From Financing Activities	**$9.797**	**$67.435**	**$17.000**	**$48.000**	**$5.000**	**$18.461**	**$39.973**	**$6.000**	**$3.000**
Effect of Exchange Rate	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Net Cash Flow	($1.430)	$5.073	($4.045)	($0.581)	$38.459	$17.215	($15.768)	$3.860	($0.234)
Beginning Cash Balance	$1.575	$0.145	$5.219	$1.174	$0.593	$0.145	$17.360	$1.593	$5.453
Ending Cash Balance	$0.145	$5.219	$1.174	$0.593	$39.052	$17.360	$1.593	$5.453	$5.219
Corporate EBITDA									
Operating Profit	($2.985)	($0.441)	$7.375	$37.246	$189.438	($0.458)	($0.407)	$0.017	$0.407
DD&A Expense	$0.495	$1.714	$3.303	$7.567	$26.684	$0.147	$0.280	$0.558	$0.729
Impairments	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Total Corporate EBITDA	**($2.491)**	**$1.272**	**$10.678**	**$44.813**	**$216.122**	**($0.311)**	**($0.127)**	**$0.575**	**$1.136**

Source: Company Data and Dahlman Rose & Co Estimates

Financial and Operating Statistics

Exhibit 22: Unit Analysis ($Mcfe)

	2005	2006E	2007E	2008E	2009E	1Q06	2Q06	3Q06E	4Q06E
Unit Analysis ($boe):									
Total Production (MMboe)	0.119	0.298	0.630	1.445	5.093	0.035	0.055	0.090	0.118
% Growth			111%	130%	252%	-99%	56%	65%	31%
% Crude Oil	75%	65%	73%	86%	93%	80%	66%	60%	64%
% Domestic	100%	100%	100%	100%	100%	100%	100%	100%	100%
WTI NYMEX Crude Oil Price ($bbl)	$41.44	$60.70	$58.30	$61.25	$62.25	$63.02	$60.02	$63.33	$56.45
Henry Hub Natural Gas Price ($boe)	$5.91	$9.64	$9.54	$9.30	$9.38	$9.90	$12.33	$7.70	$8.65
Equivalent ($boe)	**$6.16**	**$9.81**	**$9.59**	**$9.43**	**$9.45**	**$10.02**	**$11.54**	**$8.84**	**$8.92**
Oil & Gas Revenues ($/boe)	**$46.06**	**$52.09**	**$53.64**	**$56.54**	**$58.20**	**$55.75**	**$56.01**	**$52.38**	**$49.33**
Lease Operating Expense ($boe)	$22.94	$22.71	$22.98	$17.18	$10.66	$21.43	$22.75	$23.00	$23.00
Production Taxes	$2.88	$3.21	$3.34	$3.56	$3.67	$3.13	$3.51	$3.21	$3.11
% of Oil & Gas Revenues	6.3%	6.2%	6.3%	6.3%	6.3%	5.6%	6.3%	6.3%	6.3%
Total Production Costs	**$25.82**	**$25.91**	**$26.32**	**$20.75**	**$14.33**	**$24.57**	**$26.27**	**$26.21**	**$26.11**
Gross Margin	**$20.24**	**$26.18**	**$27.32**	**$35.79**	**$43.88**	**$31.19**	**$29.74**	**$26.17**	**$23.22**
G&A Expense	$26.47	$20.02	$10.16	$4.70	$1.41	$35.07	$30.94	$17.78	$12.34
Gross Profit	**($6.24)**	**$6.15**	**$17.16**	**$31.09**	**$42.46**	**($3.88)**	**($1.20)**	**$8.40**	**$10.88**
Net Interest Expense + Preferred Dividends	$3.50	$6.83	$5.71	$2.49	$0.71	($0.01)	$4.36	$9.98	$7.64
Cash Taxes	$0.00	($2.63)	$3.42	$13.27	$20.80	$0.00	$0.00	($5.58)	($2.38)
Unit Cash Flow ($boe)	**($9.74)**	**$1.96**	**$8.03**	**$15.33**	**$20.96**	**($3.87)**	**($5.56)**	**$4.00**	**$5.62**
% of revenues									
DD&A Expense	$4.16	$5.75	$5.25	$5.24	$5.24	$4.19	$5.14	$6.20	$6.20
Cash Costs	$55.80	$50.13	$45.62	$41.21	$37.25	$59.63	$61.57	$48.38	$43.70
Total Long-term Cost Structure	**$59.95**	**$55.89**	**$50.86**	**$46.44**	**$42.49**	**$63.82**	**$66.71**	**$54.58**	**$49.90**
Finding Costs	$31.10	$17.74	$17.74	$17.74	$17.74	$17.74	$17.74	$17.74	$17.74
Cash Costs	$55.80	$50.13	$45.62	$41.21	$37.25	$59.63	$61.57	$48.38	$43.70
Total Short-term Cost Structure	**$86.90**	**$67.87**	**$63.36**	**$58.95**	**$54.99**	**$77.37**	**$79.31**	**$66.12**	**$61.44**
Gross Profit	**($6.24)**	**$6.15**	**$17.16**	**$31.09**	**$42.46**	**($3.88)**	**($1.20)**	**$8.40**	**$10.88**
Divided by Finding Costs	$31.10	$17.74	$17.74	$17.74	$17.74	$17.74	$17.74	$17.74	$17.74
= Gross Profit ROI	**-20%**	**35%**	**97%**	**175%**	**239%**	**-22%**	**-7%**	**47%**	**61%**
Unit Cash Flow	**($9.74)**	**$1.96**	**$8.03**	**$15.33**	**$20.96**	**($3.87)**	**($5.56)**	**$4.00**	**$5.62**
Divided by Finding Costs	$31.10	$17.74	$17.74	$17.74	$17.74	$17.74	$17.74	$17.74	$17.74
= Full Cycle ROI	**-31%**	**11%**	**45%**	**86%**	**118%**	**-22%**	**-31%**	**23%**	**32%**
Unit Cash Flow	($9.74)	$1.96	$8.03	$15.33	$20.96	($3.87)	($5.56)	$4.00	$5.62
DD&A Expense	$4.16	$5.75	$5.25	$5.24	$5.24	$4.19	$5.14	$6.20	$6.20
= Full Cycle ROI	**-334%**	**-66%**	**53%**	**193%**	**300%**	**-192%**	**-208%**	**-36%**	**-9%**

Source: Company Data and Dahlman Rose & Co Estimates

Financial and Operating Statistics

Exhibit 23: Margin Analysis (% of Revenues)

	2005	2006E	2007E	2008E	2009E	1Q06	2Q06	3Q06E	4Q06E
Margin Analysis (% of Revenues)									
Oil & Gas Revenues	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Lease Operating Expense	50%	44%	43%	30%	18%	38%	41%	44%	47%
Production Taxes	6%	6%	6%	6%	6%	6%	6%	6%	6%
Total Operating Costs	**56%**	**50%**	**49%**	**37%**	**25%**	**44%**	**47%**	**50%**	**53%**
Gross Margin	**44%**	**50%**	**51%**	**63%**	**75%**	**56%**	**53%**	**50%**	**47%**
G&A Expense	57%	38%	19%	8%	2%	63%	55%	34%	25%
Gross Profit	**-14%**	**12%**	**32%**	**55%**	**73%**	**-7%**	**-2%**	**16%**	**22%**
Net Interest Exp. + Preferred	8%	13%	11%	4%	1%	0%	8%	19%	15%
Current Cash Taxes	0%	-5%	6%	23%	36%	0%	0%	-11%	-5%
Unit Cash Flow	**-21%**	**4%**	**15%**	**27%**	**36%**	**-7%**	**-10%**	**8%**	**11%**
DD&A Expense	**9%**	**11%**	**10%**	**9%**	**9%**	**8%**	**9%**	**12%**	**13%**
Finding Cost	**68%**	**34%**	**33%**	**31%**	**30%**	**32%**	**32%**	**34%**	**36%**

Source: Company Data and Dahlman Rose & Co Estimates

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