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**IN THE UNITED STATES BANKRUPTCY COURT  
 FOR THE NORTHERN DISTRICT OF TEXAS  
 DALLAS DIVISION**

<b>IN RE</b>	§	
	§	
<b>CANO PETROLEUM, INC., ET AL.</b>	§	<b>CASE NO. 12-31549-BJH</b>
	§	<b>JOINT ADMINISTRATION</b>
	§	<b>REQUESTED</b>
	§	
<b>Debtors.</b>	§	<b>(CHAPTER 11)</b>
	§	

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**DECLARATION OF DAVID M. BENNETT AND  
 DISCLOSURE OF COMPENSATION PURSUANT TO  
11 U.S.C. § 329 AND FED. R. BANKR. P. 2014(a) AND 2016 (b)**

Pursuant to 28 U.S.C. § 1756, David M. Bennett declares as follows:

1. My name is David M. Bennett. I am over the age of 21 years and have personal knowledge of the facts as stated in this Declaration.

2. I am a partner in the law firm of Thompson & Knight LLP (“T&K”), 1722 Routh Street, Suite 1500, Dallas, Texas 75201. I submit this Declaration in Support of the Application to Employ Thompson & Knight LLP as Counsel to the Debtors and Debtors-in-Possession (the “Application”). T&K is willing to accept employment on the basis set forth in the Application.

3. I am duly admitted to practice before all courts of the State of Texas, the Fifth and Tenth Circuit Court of Appeals, as well as this Court. I am a member in good standing of the State Bar of Texas. All T&K attorneys who will work on the Case are admitted to practice in

this State and before this Court. The T&K attorneys who will work on the Case have substantial experience in bankruptcy cases and, in the case of attorneys whose expertise is outside of bankruptcy, their special knowledge and experience is necessary for the proper representation of Cano Petroleum, Inc. ("Cano") and its direct and indirect subsidiaries (collectively, the "Debtors") herein.

4. T&K is a law firm with domestic offices in Houston, Dallas, Fort Worth, Austin, Detroit, and New York. T&K is a full-service law firm with experience and expertise in all facets of legal practice, including bankruptcy, insolvency, corporate reorganizations, and debtor-creditor law. T&K is well qualified to act as counsel for the Debtors in this Case.

5. I and those of my partners and associates who practice in the bankruptcy/creditors' rights areas are experienced in bankruptcy, corporate reorganization and debtor/creditor relations.

6. The Debtors have retained T&K to provide, among things, legal services in connection with their on-going restructuring efforts, the potential sale of the company or its assets and other related matters.

#### **GENERAL STATEMENT**

7. Except as otherwise disclosed herein, and insofar as I have been able to ascertain after due diligence, neither I, T&K, nor any partner, associate, or counsel of T&K, represent any party-in-interest or any other entity other than the Debtors in connection with the chapter 11 case (the "Case"). Thus, T&K is a "disinterested person," as that term is defined in Section 101(14) of the Bankruptcy Code, as modified by Section 1107(b) of the Bankruptcy Code. T&K's due diligence has revealed that T&K:

- a. does not hold or represent any interest adverse to the Debtors' estates;

- b. is disinterested so as to render T&K eligible to serve as counsel for the Debtors under Bankruptcy Code Section 327(a);
- c. is not a creditor, a security holder, or insider of any of the Debtors and does not represent any entity (or its attorneys or accountants) other than the Debtors in connection with the Case;
- d. is not, and was not, within two (2) years before the Petition Date, a director, officer or employee of the Debtors;
- e. does not have any interest materially adverse to the interests of the Debtors' estates or any class of creditors or equity security holders of the Debtors, by reason of any direct or indirect relationship to, connection with, or any interest in, the Debtors or for any other reason; and
- f. has no connections with the Debtors, their creditors, equity interest holders, or any party-in-interest herein, or with the respective attorneys or accountants of the foregoing, or with the Office of the United States Trustee or any person employed with the United States Trustee (the "U.S. Trustee"), except as set forth herein.

#### **SEARCH AND DISCLOSURE PROCEDURES**

8. T&K uses certain procedures to investigate its relationships with parties that may have connections to a debtor (the "Conflicts Procedures"). In implementing the Conflicts Procedures and in the preparation of this Declaration, the following actions were taken to identify parties in that may have connections to the Debtors.

9. T&K maintains and operates a computer database of all matters in which T&K is involved to avoid (a) conflicts of interest and (b) violating applicable rules of professional responsibility (the "Conflicts Database"). T&K searched its Conflicts Database for parties in the following categories with respect to the Debtors:

- a. Debtors
- b. Secured Creditors (and their counsel)
- c. Board of Directors
- d. Officers

- e. Financial Institutions
- f. Debtors' Professionals
- g. Active & Former Employees (including Contractors)
- h. Region 6 U.S. Trustee Staff
- i. Top 30 Creditors
- j. Governmental Entities
- k. Possible Lien Holders
- l. Royalty Owners
- m. Working Interest Owners
- n. Taxing Authorities
- o. Utilities
- p. Vendors /Suppliers
- q. Insurance companies
- r. Counterparties to contracts
- s. Counterparties to leases
- t. Vendors
- u. Shareholders
- v. Bond Company
- w. State Oil and Gas Regulatory Authorities (Texas, New Mexico,  
and Oklahoma)
- x. Purchasers

10. A copy of the list of the parties run through the Conflicts Database (the "Searched Parties") is attached as **Schedule 1**.

11. Based on the conflict search results for the Searched Parties performed to date and to the best of my knowledge, T&K does not have a conflict and does not represent any person or entity other than the Debtors in connection with the Case.

12. A list of those Searched Parties from Schedule 1 that T&K currently represents in matters wholly unrelated to these Chapter 11 cases has been attached as **Schedule 2**. A list of those Searched Parties from Schedule 1 that T&K has in the past five years represented in matters wholly unrelated to these Chapter 11 cases is attached as **Schedule 3**.

13. John H. Martin, a T&K senior partner, is listed on Schedule 1 as a “Royalty Owner” of the Debtors, but presently is not owed on account of his royalty interest. He has been paid a total of \$8.37 in the two years prior to the Petition Date.

14. To the best of my knowledge, none of the persons or entities listed on Schedule 2 has represented more than 1 percent (1%) of T&K’s annual gross revenue over the past twelve (12) months other than Wells Fargo Bank, which represented 1.2 % of the fees that T&K collected in 2011. Wells Fargo Bank is listed on Schedules 1 and 2 as a trustee for certain Royalty Owners (and T&K’s representation of Wells Fargo is unrelated to the related Royalty Owner Trusts). T&K’s representation of the parties listed on Schedule 2 will not affect its representation of the Debtors in this Case, as T&K does not and will not represent any such parties in matters related to the Debtors.

15. Union Bank N.A., (“**Union Bank**”), one of the Debtors’ senior-secured lenders and the Agent for the prepetition secured lenders, is a current T&K client. Prior to the Petition Date, T&K obtained the consent of Union Bank to represent the Debtors. With respect to T&K’s representation of the Debtors in their chapter 11 cases, T&K has agreed that it will not (a) assert or prosecute any lender liability or similar claim against Union Bank; (b) attack the validity or

priority of Union Bank's claims, liens, and/or security interests asserted in the case; or (c) prosecute any proceeding to recover any monies or other consideration paid or transferred to Union Bank by or on behalf of the Debtors as an avoidable transfer under the Bankruptcy Code or other applicable law or on any other avoidance theory. In circumstances where Union Bank or any party listed in Schedule 2 or Schedule 3 will be adverse to the Debtors in these chapter 11 cases, the Debtors will refer the dispute to a statutory committee of unsecured creditors, if appointed, to prosecute the dispute, or, if appropriate, will retain conflicts counsel.

16. To reiterate, T&K does not represent and has not represented any of the listed entities in connection with the Case. In searching the Conflicts Database, T&K has no connection or relationship with those entities in the following categories:

- a. Officers, directors, and control persons of the Debtors;
- b. Professionals identified for employment by the Debtors; and
- c. The office of the U.S. Trustee and other persons employed by the U.S. Trustee.

#### **SUPPLEMENTAL DISCLOSURES**

17. Because T&K is a large law firm with approximately 300 attorneys in several offices and has a large and diversified legal practice, its client base includes thousands of large and small public and private corporations, government agencies, banks, insurance companies, investment banking firms, partnerships, non-profit organizations, estates, trusts, and individuals. Hundreds of parties in interest may be involved in the Case. In this regard and as discussed herein, T&K has made an effort, and will continue to make an effort, to set materiality thresholds with respect to its due diligence search with respect to any connections T&K may have with creditors and other parties in interest in the Case. T&K periodically will review its files during the pendency of the case to ensure that no conflicts or other disqualifying circumstances exist or

arise. If any new relevant facts or relationships are discovered or arise, T&K will promptly file a supplemental declaration.

18. Moreover, T&K may have “connections” with many of the attorneys and other professionals involved in the Case. T&K may have referred matters to professionals involved in the Case and it may have been referred matters by such parties. T&K may represent or have, from time to time, represented one or more of the professionals involved in the Case.

19. In sum, the results of the conflict analysis detailed herein confirm that T&K is “disinterested” within the meaning of Bankruptcy Code Section 101(14). The disclosures made herein are disclosed out of an abundance of caution to show that, from time to time, T&K may have represented in the past, may currently represent, and likely in the future will represent creditors and other parties-in-interest of the Debtors in connection with matters unrelated to the Debtors and the Case. Under no circumstances has T&K agreed to nor will it represent any creditors of the Debtors or affiliates of such creditors in connection with the Case.

#### **PAYMENTS TO T&K**

20. The Debtors provided T&K with a approximately \$250,000 retainer (the “Retainer”) in connection with restructuring and reorganization advice. Prior to the Petition Date, the Debtors paid T&K the amount of \$935,276.50 for bankruptcy services in connection with this Case. Accordingly, after payment of all prepetition fees and disbursements, T&K holds no claim against the Debtors’ estates. Although T&K received payment for services rendered during the ninety (90) days preceding the Petition Date, none of the payments are subject to an avoidance as a preference.

**BENEFITS TO THE ESTATE**

21. T&K's experience and expertise, as well as its familiarity with the Debtors and their business, will substantially benefit the Debtors' estates by allowing T&K to provide effective and efficient legal services in the Case. Through its prepetition representation of the Debtors and its recognized knowledge and experience in virtually all aspects of the Case, T&K is uniquely able to assist the Debtors in their reorganization to maximize the value of their estates for the benefit of creditors and other interested parties.

22. Subject to this Court's approval, and in accordance with T&K's agreement with the Debtors, T&K intends to (a) charge for its legal services on an hourly basis in accordance with its ordinary and customary hourly rates in effect on the date services are rendered, and (b) seek reimbursement of actual and necessary out-of-pocket expenses in connection with the rendition of legal services in accordance with T&K's policies for all clients.<sup>1</sup> T&K will maintain detailed, contemporaneous records of time and any actual and necessary expenses incurred in connection with the rendering of the legal services described in the Application.

23. The fees charged by T&K are based on hourly rates, which are periodically adjusted in the normal course of the firm's business. T&K and the Debtors have agreed that the standard structure used by the firm will apply to fees charged in connection with the Case. The hourly rates in practice currently range from \$515.00 to \$740.00 for partners, \$245.00 to \$600.00 for counsel and associates, and \$125.00 to \$245.00 for legal assistants and support staff. My current hourly rate for this matter is \$740.00 per hour. T&K and its professionals will keep track of their billings on a tenth of an hour basis with time charges allocated in accordance with the categories set forth by the U.S. Trustee.

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<sup>1</sup> Hourly rates charged by T&K professionals differ based on professional's level of experience and the rates normally charged in the location of the office in which the professional is a resident.



24. Other than the Debtors' agreement to compensate T&K at its regular hourly rates and to reimburse T&K for the reasonable and necessary expenses incurred on the Debtors' behalf, T&K has not received any promises from the Debtors or any other person to compensate or reimburse T&K in connection with the Case.

25. Neither T&K nor any partners of T&K have divided, paid over or shared, or agreed to divide, pay over or share, (a) any compensation it or they has or have received or may receive for services rendered or expenses incurred in connection with these cases with another party or person (except as among the partners, counsel and associates of T&K) or (b) any compensation another party or person has received or may receive for services rendered or expenses incurred in connection with the Case.

26. The proposed retention of T&K is not prohibited by or improper under Bankruptcy Rule 5002. T&K and the professionals it employs are qualified to represent the Debtors in the matters for which T&K is proposed to be retained. Collectively, the prepetition payments represent the reasonable value of the actual prepetition services rendered to the Debtors by T&K. T&K is not a prepetition creditor of the Debtors.

27. The foregoing constitutes the statement of T&K pursuant to Bankruptcy Code Sections 329, 504, and Bankruptcy Rules 2014(a) and 2016(b).

28. I have reviewed this Declaration and hereby declare under penalty of perjury that the foregoing is true and correct and within my own personal knowledge.

**Executed this 8th day of March, 2012.**

*/s/ David M. Bennett*

**David M. Bennett**  
**Senior Partner, Thompson & Knight LLP**