CANO PETROLEUM, INC
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June 02, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

þ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

Cano Petroleum, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(1) Amount Previously Paid:

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MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Resaca Exploitation, Inc., which we refer to as Resaca, its wholly-owned subsidiary, Resaca Acquisition Sub, Inc., which we refer to as Merger Sub, and Cano Petroleum, Inc., which we refer to as Cano, have entered into an Agreement and Plan of Merger, dated September 29, 2009, which we refer to as the merger agreement. Under the merger agreement, Resaca will acquire Cano through a merger of Merger Sub with and into Cano, which we refer to as the merger. Following the merger, Cano will be the surviving corporation and will continue as a wholly-owned subsidiary of Resaca. The merger agreement is attached as Annex A to this proxy statement/prospectus, which we refer to as the proxy statement.

At the effective time of the merger and assuming the Resaca shareholder approval of an amendment to Resaca's certificate of formation to effect a reverse split of the outstanding shares of Resaca common stock, par value $0.01 per share, which we refer to as Resaca common stock, by a ratio of one-for-five immediately prior to the merger, which we refer to as the Reverse Stock Split, each outstanding share of Cano common stock, par value $0.0001 per share, which we refer to as Cano common stock, will be converted into the right to receive 0.42 shares of Resaca common stock and each outstanding share of Cano Series D Convertible Preferred Stock, no par value per share, which we refer to as Cano preferred stock, will be converted into the right to receive one share of a newly designated class of Resaca Series A Convertible Preferred Stock, par value $0.01 per share, which we refer to as Resaca preferred stock, each as described under "Description of Resaca Capital Stock" in this proxy statement. Immediately following the merger and prior to completion of the offering (as defined below), Cano common stockholders will hold approximately 50% of the common stock of the combined company, and Resaca shareholders will hold approximately 50% of the common stock of the combined company.

Resaca common stock is listed on the AIM market of the London Stock Exchange, which we refer to as the AIM, under the symbols "RSOX" and "RSX." Resaca common stock has been approved for listing on the NYSE Amex under the symbol "RSOX." Upon the consummation of the merger and the concurrent equity offering, Resaca common stock will be traded on the NYSE Amex and the AIM under the symbol "RSOX." Cano common stock is currently listed on the NYSE Amex under the symbol "CFW."

This proxy statement describes the merger agreement, the merger and the transactions related to the merger in detail and provides information concerning the special meeting of Cano stockholders. The completion of the merger is conditioned upon (i) Resaca's shareholders approving the issuance of shares of Resaca common stock and Resaca preferred stock to the Cano common stockholders and preferred stockholders, respectively, in the merger; (ii) Resaca's shareholders approving the issuance of up to $75 million in Resaca common stock (which amount may be increased or decreased in the sole discretion of the Resaca board of directors in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder) in an underwritten public offering, which we refer to as the offering; (iii) Resaca's shareholders approving the Reverse Stock Split; (iv) Resaca's shareholders approving an amendment to the Resaca Exploitation, Inc. 2008 Stock Incentive Plan, which we refer to as the Incentive Plan, to increase the number of shares of Resaca common stock reserved for issuance under the Incentive Plan by 4,000,000 shares and to prohibit the repricing of any award granted under the Incentive Plan; (v) Cano's common and preferred stockholders adopting the merger agreement; and (vi) Cano's common and preferred stockholders approving the amendment of Cano's certificate of incorporation by amending its Certificate of Designations, Rights and Preferences of the Series D Convertible Preferred Stock, dated August 31, 2006, which we refer to as the Cano Series D Amendment. The Cano Series D Amendment is attached as Annex D to this proxy statement.

The board of directors of Cano unanimously recommends that its stockholders vote "FOR" the proposals before them.

Your vote is very important. Whether or not you plan to attend Cano's special meeting, please take the time to vote by completing and mailing the enclosed proxy card or voting instruction card, or, if the option is available to you, by granting your proxy electronically over the Internet or by telephone.

This document is a prospectus relating to the shares of Resaca common stock to be issued in the merger and a proxy statement for Cano to solicit proxies for its special meeting of stockholders. It contains answers to frequently asked questions and a summary of the important terms of the merger, the merger agreement and related transactions, followed by a more detailed discussion.

For a discussion of certain significant matters that you should consider before voting on the proposed transaction, see "Risk Factors" beginning on page I-54.

Sincerely,

J.P. Bryan	S. Jeffrey Johnson
Chairman of the Board	Chairman of the Board and Chief Executive Officer
Resaca Exploitation, Inc.	Cano Petroleum, Inc.

Neither the Securities and Exchange Commission, which we refer to as the SEC, nor any state securities commission has approved or disapproved of the transactions described in this proxy statement or the securities to be issued pursuant to the merger or passed upon the adequacy or accuracy of the disclosure in this proxy statement. Any representation to the contrary is a criminal offense.

This proxy statement is dated June 2, 2010 and is first being mailed to stockholders of Cano on or about June 2, 2010.

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CANO PETROLEUM, INC.
801 Cherry Street, Suite 3200
Fort Worth, Texas 76102
(817) 698-0900

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 23, 2010

To the Stockholders of Cano Petroleum, Inc.:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of Cano Petroleum, Inc., a Delaware corporation, which we refer to as Cano, will be held at The Fort Worth Club, located at 306 W. 7th Street, Suite 1100, Fort Worth, Texas 76102, on Wednesday, June 23, 2010 at 10:00 a.m., Fort Worth, Texas time, for the following purposes:

1. To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated September 29, 2009, which we refer to as the merger agreement, by and among Cano, Resaca Exploitation, Inc., a Texas corporation, which we refer to as Resaca, and Resaca Acquisition Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Resaca, which we refer to as Merger Sub, and the merger contemplated thereby, pursuant to which Merger Sub will merge with and into Cano;

2. To consider and vote upon a proposal to amend the Certificate of Designations, Rights and Preferences of the Series D Convertible Preferred Stock of Cano, dated August 31, 2006, as amended, which we refer to as the Cano Series D Amendment;

3. To consider and vote upon proposal to adjourn the special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of proposal 1 or 2; and

4. To transact such other business incident to the conduct of the meeting as may properly come before the meeting or any adjournments or postponements thereof.

Only stockholders of record of Cano common stock, par value $0.0001 per share, which we refer to as Cano common stock, and Cano Series D Convertible Preferred Stock, no par value per share, which we refer to as Cano preferred stock, at the close of business on May 21, 2010, which we refer to as the Cano record date, are entitled to notice of and to vote at the special meeting or at any adjournments or postponements thereof. Each share of Cano common stock is entitled to one vote per share. Each share of Cano preferred stock is entitled to (i) one vote per share for proposals 1 and 2; and (ii) approximately 173.913 votes per share (voting on an as-converted basis to Cano common stock) on proposal 3.

As of April 5, 2010, the holders of a majority of the outstanding shares of Cano preferred stock had executed and delivered voting agreements, with irrevocable proxies, agreeing to vote in favor of the Cano Series D Amendment and the merger agreement and executed a written consent in lieu of special meeting, whereby those holders approved the Cano Series D Amendment and the adoption of the merger agreement.

The first two proposals listed above relating to the merger and the Cano Series D Amendment are conditioned upon each other and the approval of each such proposal is required for completion of the merger.

The affirmative vote of both (a) a majority of the outstanding shares of Cano common stock, voting as a separate class; and (b) a majority of the outstanding shares of Cano preferred stock, voting as a separate class, is required to approve the merger agreement and the Cano Series D Amendment. The approval of the adjournment of the meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of proposals 1 or 2 requires the affirmative vote of a majority of the shares cast affirmatively or negatively of Cano common stock and Cano preferred stock, voting as a single class with the Cano preferred stock voting on an as-converted basis to Cano common stock.

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A complete list of Cano stockholders entitled to vote at the special meeting will be available for examination at Cano's offices in Fort Worth, Texas during normal business hours by any Cano stockholder for any purpose relevant to the special meeting for a period of ten days prior to the special meeting. This list will also be available at the special meeting and any Cano stockholder may inspect it for any purpose relevant to the special meeting.

The members of the Cano board of directors, who voted, unanimously approved and adopted the merger agreement and the transactions contemplated by it, declared its advisability, and recommend that the Cano stockholders vote "FOR" the adoption of the merger agreement, "FOR" the adoption of the Cano Series D Amendment and "FOR" the approval of proposal 3 above. As described on pages I-108 to I-109, some Cano directors and executive officers will receive substantial financial benefits as well as other valuable consideration as a result of the merger.

Your vote is important. Even if you plan to attend the special meeting in person, we request that you sign and return the enclosed proxy or voting instruction card and thus ensure that your shares will be represented at the special meeting if you are unable to attend. If you do attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

By Order of the Board of Directors,

S. Jeffrey Johnson
Chairman of the Board and Chief Executive Officer

June 2, 2010

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LIST OF ANNEXES

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REFERENCES IN THIS PROXY STATEMENT

The merger, the offering and refinancing of the combined company's indebtedness are conditioned upon the closing of each other. Therefore, we have combined a portion of the operational and reserve data and financial information to allow Cano stockholders to evaluate the meeting proposals as if the merger and related transactions are completed as of the date of this proxy statement/prospectus, which we refer to as the proxy statement. As used in this proxy statement, unless otherwise stated or the context otherwise indicates, all references to:

- the "AIM" refers to the AIM market of the London Stock Exchange;
- "Cano" refers to Cano Petroleum, Inc. and its consolidated subsidiaries prior to the completion of the merger;
- "Cano common stock" refers to Cano's common stock, par value $0.0001 per share;
- "Cano preferred stock" refers to Cano's Series D Convertible Preferred Stock, par value $0.0001 per share;
- "Cano stock options" refers to options to acquire 1,320,910 shares of Cano common stock;
- the "combined company," "we," "our," and "us" refer to Resaca as a combined company with Cano following the completion of the merger;
- "Incentive Plan" refers to the Resaca Exploitation, Inc. 2008 Stock Incentive Plan, as amended by the First Amendment to Resaca Exploitation, Inc. 2008 Stock Incentive Plan;
- "Incentive Plan Amendment" refers to the Second Amendment to Resaca Exploitation, Inc. 2008 Stock Incentive Plan;
- the "merger" refers to the merger between Cano and Resaca as described in this proxy statement and the merger agreement;
- the "Merger and the Share Issuances" refers to (i) the issuance of Resaca common stock and Resaca preferred stock, pursuant to the merger agreement; (ii) the merger; and (iii) the issuance of more than 25% of the aggregate number of shares of Resaca common stock issued and outstanding at the commencement of Resaca's fiscal year 2010 under Article V(b) of Resaca's certificate of formation in order to effect the issuance of Resaca common stock and Resaca preferred stock in conjunction with the merger and issuance of up to $75 million in Resaca common stock in an underwritten public offering (which amount may be increased or decreased in the sole discretion of the Resaca board of directors in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder);
- the "merger agreement" refers to the Agreement and Plan of Merger, dated as of September 29, 2009, by and among Resaca, Merger Sub and Cano, as amended by (i) Amendment No. 1 to the Agreement and Plan of Merger, dated as of February 24, 2010; (ii) Amendment No. 2 to the Agreement and Plan of Merger, dated April 1, 2010; (iii) Amendment No. 3 to the Agreement and Plan of Merger, dated April 28, 2010; and (iv) Amendment No. 4 to the Agreement and Plan of Merger, dated May 19, 2010;
- "Merger Sub" refers to Resaca Acquisition Sub, Inc., a wholly-owned subsidiary of Resaca, prior to the completion of the merger;

the "New Facility" refers to a firm commitment from UBNA, as administrative agent and an issuing lender, and Natixis New York Branch, which we refer to as Natixis, as an issuing lender, to arrange a new revolving senior secured credit facility providing for first priority loan borrowings not to exceed a borrowing base initially determined at $90 million with financial institutions acceptable to Resaca and the issuing lenders;

"offering" refers to the underwritten public offering of between $50 million and $75 million in Resaca common stock which amount includes the underwriters' 30 day option to purchase additional shares of Resaca common stock to cover overallotments, and which amount may be increased or decreased in the sole discretion of the Resaca board of directors in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder;

"PBWS" refers to Permian Basin Well Services, LLC;

"Resaca" refers to Resaca Exploitation, Inc. and its consolidated subsidiary collectively prior to the completion of the merger;

"Resaca common stock," "our common stock" or "common stock" refer to Resaca's or the combined company's common stock, par value $0.01 per share;

"Resaca preferred stock," "our preferred stock" or "preferred stock" refers to Resaca's Series A Convertible Preferred Stock, par value $0.01 per share, which will be issued to the holders of Cano preferred stock in the merger;

"Reverse Stock Split" refers to a reverse split of the outstanding shares of Resaca common stock by a ratio of one-for-five immediately prior to the merger;

"Rig Acquisition" refers to Resaca's acquisition of workover rig operations, a building and a yard from PBWS and Resaca's issuance of 3,320,250 shares of Resaca common stock as consideration for such acquisition;

"Torch" refers to Torch Energy Advisors Incorporated; and

"UBNA" refers to Union Bank of North America, N.A., formerly known as Union Bank of California, N.A.

In addition, all discussions of Resaca outstanding shares, shares of restricted stock and options, pro forma for the merger with Cano, assume that (i) all Cano restricted stock is converted into Resaca common stock and (ii) all Cano stock options became Resaca stock options. Where indicated in this proxy statement, information in this proxy statement, including but not limited to share calculations and the exchange ratio in the merger, is presented as if the Resaca shareholders and/or the Cano stockholders have approved the following:

the merger;

the issuance of Resaca common stock and Resaca preferred stock in conjunction with the merger;

the Reverse Stock Split (requires Resaca shareholder approval only);

the Incentive Plan Amendment (requires Resaca shareholder approval only); and

the Rig Acquisition (requires Resaca shareholder approval only).

Where indicated in this proxy statement, including as described with the terms "combined company" or "pro forma combined," pro forma combined financial information presented in this proxy statement gives effect to the completion of the merger and the Reverse Stock Split. For a complete description of the adjustments we have made to arrive at the pro forma combined financial measures that we present in this proxy statement, please read "Unaudited Pro Forma Combined Financial Data" beginning on page F-2 of this proxy statement. Where indicated in this proxy statement, including as described with the terms "Resaca," "Cano," and "historical," separate and/or historical information of Resaca and Cano presented in this proxy statement gives no effect to the completion of the merger or the Reverse Stock Split.

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CHAPTER I THE MERGER

QUESTIONS AND ANSWERS ABOUT THE CANO SPECIAL MEETING OF STOCKHOLDERS

Set forth below are commonly asked questions and answers about the merger and the Cano special meeting of stockholders. For a more complete description of the legal and other terms of the merger, please read carefully this entire proxy statement, including the annexes and the other documents referred to herein and the other available information referred to in "Where You Can Find More Information" on page II-8.

General

Q: **Why am I receiving these materials?**

A: We are sending you these materials to help you decide how to vote your shares of Cano stock with respect to our proposed merger.

The merger cannot be completed unless the Resaca shareholders approve the Merger and the Share Issuances, the Reverse Stock Split and the Incentive Plan Amendment and Cano common and preferred stockholders adopt the merger agreement and approve the Cano Series D Amendment. Resaca is holding its annual meeting of shareholders and Cano is holding a special meeting of stockholders to vote on the proposals necessary to complete the merger. Information about the Cano special meeting, the merger and the other business to be considered by the Cano stockholders is contained in this proxy statement.

As of April 5, 2010, the holders of a majority of the outstanding shares of Cano preferred stock had executed and delivered voting agreements, with irrevocable proxies, agreeing to vote in favor of the Cano Series D Amendment and the merger agreement and executed a written consent in lieu of special meeting, whereby those holders approved the Cano Series D Amendment and the adoption of the merger agreement. Holders of Cano preferred stock are entitled to appraisal rights under the General Corporation Law of the State of Delaware, which we refer to as the DGCL in respect of the merger.

We are delivering this document to you as both a proxy statement of Cano and as a prospectus of Resaca. It is a proxy statement because Cano's board of directors is soliciting proxies from its stockholders. It is a prospectus because Resaca will exchange shares of Resaca common stock and Resaca preferred stock for shares of Cano common stock and Cano preferred stock in the merger.

Q: **Why are Resaca and Cano proposing the merger?**

A: Resaca and Cano believe that the merger will:

- combine complementary assets and create balanced growth opportunities for the combined company;
- result in significant cost savings and efficiencies for the combined company;
- allow for near-term low risk production enhancement through increased productivity of the combined company;
- provide strategic consistency to the combined company; and
- create more efficient access to capital for the combined company.

Please review the more detailed description of our reasons for the merger beginning on pages I-87 and I-90.

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Q: **What will happen if the merger is completed?**

A: Resaca will acquire Cano through the merger of Merger Sub, a wholly-owned subsidiary of Resaca, with and into Cano. Cano will be the entity surviving the merger and will continue as a wholly-owned subsidiary of Resaca after the merger. Resaca will continue as a public company, and following the merger the combined company will be a domestic independent oil and gas company.

Q: **What will Cano stockholders and Resaca shareholders receive in the merger?**

A: In the merger, holders of Cano common stock will receive 0.42 shares of Resaca common stock for each share of Cano common stock outstanding. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the consummation of the merger. Immediately following completion of the merger, prior to the completion of the offering, Cano common stockholders will own approximately 50% of the common stock of the combined company.

Holders of Cano preferred stock will receive one share of Resaca preferred stock for each share of Cano preferred stock. Immediately following the effective time of the merger, each share of Resaca preferred stock initially will be convertible into the right to receive approximately 201.491 shares of Resaca common stock.

Resaca shareholders will continue to own their existing shares, of which there are approximately 19,389,499 shares outstanding immediately following the Reverse Stock Split and at effective time of the merger.

For more information, please see "The Merger Agreement Manner and Basis of Converting Securities" beginning on page I-121.

Q: **When do Resaca and Cano expect to complete the merger?**

A: Resaca and Cano expect to complete the merger after all conditions to the merger as set forth in the merger agreement are satisfied or waived, including the shareholder and stockholder approvals required at the meetings of Resaca and Cano, respectively. Resaca and Cano currently expect to complete the merger by the end of June 2010. However, it is possible that factors outside of either company's control could require Resaca or Cano to complete the merger at a later time or not to complete it at all.

Q: **How does the board of directors of Cano recommend that I vote?**

A: The Cano board of directors unanimously recommends that holders of Cano common stock and Cano preferred stock vote "FOR" the proposals, including the adoption of the merger agreement and the Cano Series D Amendment.

Q: **What do I need to do now?**

A: After carefully reading and considering the information contained in this proxy statement, please vote your shares as soon as possible so that your shares will be represented at the Cano special meeting. Please follow the instructions set forth on the proxy card or on the voting instruction form provided by the record holder if your shares are held in the name of your broker, bank or other nominee.

Q: **How do I vote?**

A: You may vote before Cano's special meeting in one of the following ways:

- use the U.S. toll-free number shown on your proxy card;

visit the website shown on your proxy card to vote via the Internet; or

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complete, sign, date and return the enclosed proxy card in the enclosed return envelope. If you sign and send in your proxy card and do not indicate how you want to vote, your proxy will be counted as a vote in favor of the proposals to be voted on at the Cano special meeting.

You may also cast your vote in person at the Cano special meeting. To assure that Cano obtains your vote, please vote as instructed on your proxy card, even if you plan to attend the Cano special meeting in person.

If your shares are held in "street name", through a broker, bank or other nominee, that institution will send you separate instructions describing the procedure for voting your shares. "Street name" holders who wish to vote at the special meeting will need to obtain a proxy form from the institution that holds their shares.

Q:

When and where is the Cano special meeting of stockholders to be held?

A:

The Cano special meeting of stockholders will take place on Wednesday, June 23, 2010 at 10:00 a.m., Fort Worth, Texas time. The location of the special meeting is The Fort Worth Club located at 306 W. 7th Street, Suite 1100, Fort Worth, Texas 76102.

Q:

What constitutes a quorum for Cano?

A:

Stockholders who hold a majority in voting power of the Cano common stock and Cano preferred stock issued and outstanding as of the close of business on the record date and who are entitled to vote must be present or represented by proxy in order to constitute a quorum to conduct business at the Cano special meeting.

Q:

What vote is required for Cano's approval relating to the merger?

A:

The affirmative vote of a majority of the outstanding shares of Cano common stock, voting as a separate class, and the affirmative vote of a majority of the outstanding shares of Cano preferred stock, voting as a separate class, is required to adopt the merger agreement and the Cano Series D Amendment. The affirmative vote of a majority of the shares cast affirmatively or negatively of Cano common stock and Cano preferred stock, voting as a single class with the Cano preferred stock voting on an as-converted basis to Cano common stock, is required to approve the Cano meeting adjournment proposal.

Your vote is very important to us. You are encouraged to submit a proxy as soon as possible.

Q:

If my shares of Cano common stock are held in "street name" by my broker, bank or other nominee, will my broker, bank or other nominee vote my shares of Cano common stock for me?

A:

Unless you instruct your broker, bank or other nominee how to vote your shares of Cano common stock, your shares will **NOT** be voted.

In connection with the Cano special meeting, broker non-votes will not be considered in determining the presence of a quorum, but abstentions will be considered. Broker non-votes will not be considered in determining the presence of a quorum at the Cano special meeting because only non-routine voting matters are on the ballot. Broker non-votes will have the same effect as voting "AGAINST" the proposals to (i) adopt the merger agreement and approve of the merger or (ii) approve the Cano Series D Amendment. Abstentions will also have the same effect as voting "AGAINST" each of the foregoing Cano proposals.

An abstention occurs when a Cano stockholder abstains from voting (either in person or by proxy) on one or more of the proposals. Broker non-votes occur when a bank, broker or other nominee returned a proxy but does not have authority to vote on a particular proposal. You should therefore provide your broker, bank or other nominee with instructions as to how to vote your shares of Cano common stock.

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Q: **What if I do not vote on the matters relating to the merger?**

A: If you are a Cano stockholder and you fail to vote or fail to instruct your broker, bank or other nominee how to vote on the approval of the merger agreement, your failure to vote will have the same effect as a vote "AGAINST" the adoption of the merger agreement. If you respond with an "abstain" vote, your proxy will have the same effect as a vote "AGAINST" this proposal. If you respond but do not indicate how you want to vote on the adoption of the merger agreement, your proxy will be counted as a vote "FOR" the adoption of the merger agreement.

If you are a Cano stockholder and you fail to vote or fail to instruct your broker, bank or other nominee how to vote on the Cano Series D Amendment, your failure to vote will have the same effect as a vote "AGAINST" the Cano Series D Amendment. If you respond with an "abstain" vote, your proxy will have the same effect as a vote "AGAINST" this proposal. If you respond but do not indicate how you want to vote on the Cano Series D Amendment, your proxy will be counted as a vote "FOR" the Cano Series D Amendment.

The adoption of the merger agreement and the Cano Series D Amendment are conditioned on each other, and approval of each is required for completion of the merger.

If you are a Cano stockholder and you fail to vote or fail to instruct your broker, bank or other nominee how to vote on the Cano meeting adjournment proposal, your failure to vote will not affect the Cano meeting adjournment proposal. An "abstention" vote will similarly not affect the Cano meeting adjournment proposal. If you respond but do not indicate how you want to vote on the Cano meeting adjournment proposal, your proxy will be counted as a vote "FOR" the Cano meeting adjournment proposal.

Q: **What if I hold shares of both Resaca and Cano?**

A: If you are a shareholder of Resaca and a stockholder of Cano, you will receive two separate packages of proxy materials. A vote as a Resaca shareholder for the Merger and the Share Issuances, the Reverse Stock Split or the Incentive Plan Amendment will not constitute a vote as a Cano stockholder for the adoption of the merger agreement or the Cano Series D Amendment, or vice versa. Therefore, please sign and return all proxy cards that you receive, whether from Resaca or Cano, or vote as a Cano stockholder by Internet or telephone.

Q: **May I change my vote after I have delivered my proxy or voting instruction card?**

A: Yes. You may change your vote at any time before your proxy is voted at the Cano special meeting. You can do this in one of four ways:

- by sending a notice of revocation to the corporate secretary of Cano;
- by sending a completed proxy card bearing a later date than your original proxy card;
- by logging onto the Internet website specified on your proxy card in the same manner you would submit your proxy electronically or by calling the telephone number specified on your proxy card, in each case if you are eligible to do so and following the instructions on the proxy card; or
- by attending the Cano special meeting and voting in person. Your attendance alone will not revoke your proxy.

If you choose any of the first three methods, you must take the described action no later than the beginning of the special meeting.

If your shares are held in an account at a broker, bank or other nominee, you should contact your broker, bank or other nominee to change your vote.

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Q:

What are the material U.S. federal income tax consequences of the merger?

A:

The merger is intended to qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to as the Internal Revenue Code, such that a U.S. Holder (as defined in "Material U.S. Federal Income Tax Consequences of the Merger" on page I-116) whose shares of Cano stock are exchanged in the merger solely for shares of Resaca stock will not recognize gain or loss, except with respect to cash received in lieu of fractional shares of Resaca stock. The merger is conditioned on the receipt of a legal opinion from tax counsel for Cano that the merger will be treated for U.S. federal income tax purposes as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code and that each of Cano and Resaca will be a party to the reorganization within the meaning of Section 368 of the Internal Revenue Code.

For a more complete discussion of the U.S. federal income tax consequences of the merger, see "Material U.S. Federal Income Tax Consequences of the Merger" on page I-116. Tax matters are complicated and the consequences of the merger to you will depend on your particular facts and circumstances. Please consult with your tax advisor as to the specific tax consequences of the merger to you, including the applicability of U.S. federal, state, local, foreign and other tax laws.

Q:

Is the consummation of the merger contingent on the approval of any party other than the shareholders of Resaca and the stockholders of Cano?

A:

In addition to Resaca shareholder and Cano stockholder approval, the consummation of the merger is contingent upon the following:

- the approval and implementation of the Reverse Stock Split and the Incentive Plan Amendment;

- the Resaca common stock to be issued in the merger having been approved for listing on the NYSE Amex, which approval was received by Resaca on March 30, 2010;

- because the merger will constitute a reverse takeover under the AIM rules, Resaca common stock must be readmitted to trading on the AIM immediately following the merger. Following the Resaca annual meeting and the pricing of the offering on June 23, 2010, it is anticipated that trading of Resaca common stock on the AIM will be suspended until the completion of the merger and the closing of the offering. It is anticipated that Resaca common stock will be readmitted to the AIM and the suspension of trading lifted on June 30, 2010.

- all indebtedness under Resaca's and Cano's credit facilities having been repaid or refinanced, or Resaca and Cano having received the consent of the lenders under such credit facilities to enter into the merger; and

- the completion of the offering.

Resaca and Cano currently expect each of these conditions to be satisfied prior to or promptly after Resaca's annual meeting of shareholders and Cano's special meeting of stockholders. However, it is possible that factors outside of either company's control could delay the satisfaction of these conditions or these conditions could not occur or be satisfied at all. See "Summary Conditions to Completion of the Merger" beginning on page I-22.

Q:

Am I entitled to appraisal rights?

A:

Cano's preferred stockholders are entitled to appraisal rights. Cano's common stockholders are not entitled to appraisal rights. Resaca shareholders are also not entitled to appraisal rights.

Q:

Where will my shares be traded after the merger?

A:

Upon the consummation of the merger and the offering, Resaca common stock will be traded on the NYSE Amex and the AIM under the symbol "RSOX." Upon consummation of the merger, Cano common stock will no longer be publicly traded. Resaca preferred stock will not be publicly traded.

Q:

Who will be the directors of the combined company?

A:

If the merger occurs, the size of the combined company's board of directors will be increased from five to seven members. One of the current members of the Resaca board will resign, and three current members of the Cano board of directors will be nominated by Resaca's independent directors for election to the board of the combined company. As a result, following the merger, the combined company's board will consist of four individuals previously serving as Resaca directors and three individuals previously serving as Cano directors.

Q:

What if I hold Cano stock options, restricted stock or other stock-based awards?

A:

If the merger occurs, each Cano option will immediately vest prior thereto and become an option (a) to purchase that number of shares of Resaca common stock obtained by multiplying the number of shares of Cano common stock issuable upon the exercise of such option by the exchange ratio of 0.42, (b) at an exercise price per share equal to the per share exercise price of such option divided by the exchange ratio of 0.42, and (c) otherwise with the same terms and conditions as the outstanding Cano options. However, in any event the exercise price, the number of shares purchasable pursuant to the option and the terms and conditions of exercise of such option will be determined in accordance with the requirements of Section 424(a) of the Internal Revenue Code and in a manner that does not cause any option to be deferred compensation subject to Section 409A of the Internal Revenue Code.

Immediately prior to the completion of the merger, all restrictions on Cano restricted stock awards will expire and each outstanding share will be converted into the right to receive 0.42 shares of Resaca common stock at the effective time of the merger.

Q:

What happens to Resaca stock options, restricted stock or other stock-based awards?

A:

Resaca stock options and other equity-based awards, including restricted stock, will remain outstanding and will not be affected by the merger.

Q:

Should I send in my stock certificates now?

A:

No. Please do not send your stock certificates with your proxy card.

You will receive written instructions from the exchange agent after the merger is completed on how to exchange your stock certificates for Resaca common stock or Resaca preferred stock, as applicable.

Q:

Are there any risks in the merger that I should consider?

A:

Yes. There are risks associated with all business combinations, including the proposed merger. In particular, you should be aware that the exchange ratio determining the number of shares of Resaca common stock that Resaca will issue in exchange for shares of Cano common stock in the merger is fixed and will not change as the market prices of shares of Resaca common stock or Cano common stock fluctuate in the period before the merger. Accordingly, the value of the shares of Resaca common stock that Resaca will issue in the merger in exchange for shares of Cano common stock may be either less or more than the current trading price of shares of Cano common stock. There are also a number of other risks that are discussed in this proxy statement. We have described these risks and other risks in more detail under "Risk Factors" beginning on page I-54.

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Q: **Where can I find more information about the companies?**

A: Investors and security holders may obtain free copies of reports published by Resaca (when they are available) by contacting Resaca Investor Relations at (713) 753-1441. Investors and security holders also may obtain free copies of the documents on Resaca's website at *www.resacaexploitation.com*. The information contained on, connected to or that can be accessed via the website is not part of this proxy statement.

Cano files periodic reports and other information with the U.S. Securities and Exchange Commission, which we refer to as the SEC. Investors and security holders may obtain free copies of these documents (when they are available) and other documents filed with the SEC by contacting Cano Investor Relations at (817) 698-0900. You may also read and copy this information at the SEC's public reference facility. Please call the SEC at 1-800-SEC-0330 for information about this facility. This information is also available through the Internet site maintained by the SEC at *www.sec.gov* and at the offices of the NYSE Amex. Investors and security holders may also obtain free copies of the documents filed with the SEC on Cano's website at *www.canopetro.com*. The information contained on, connected to or that can be accessed via the website is not part of this proxy statement.

For a more detailed description of the information available, please see "Where You Can Find More Information" on page II-8.

Q: **Who should I contact if I have any questions?**

A: If you have questions about the merger or if you need assistance in submitting your proxy or voting your shares or need additional copies of the proxy statement or the enclosed proxy card, you should contact:

If you are a Cano shareholder:

Cano Petroleum, Inc. 801 Cherry St., Suite 3200 Fort Worth, Texas 76102 (817) 698-0900	Or	D F King and Co., Inc. 48 Wall Street, 22nd Floor New York, New York 10005 1-800-758-5378

Q: **How is the Series D Convertible Preferred Stock Certificate of Designations, Rights and Preferences amended or changed by the Cano Series D Amendment?**

A: The Cano Series D Amendment eliminates the rights of the holders of the Cano preferred stock arising out of or caused by the execution and delivery of the merger agreement or the consummation of the merger (including any rights to require Cano to redeem any of the shares of the Cano preferred stock or notice, voting or consent rights), except to receive the shares of Resaca preferred stock pursuant to the terms of the merger agreement and the rights set forth in the investors rights agreement attached as Annex F to this proxy statement (including registration rights and preemptive rights relating to the Resaca capital stock to be received by such holders pursuant to the merger), which we refer to as the investors rights agreement. If the Cano Series D Amendment is approved, and the merger is consummated, the holders of Cano preferred stock will have rights only to the consideration specified in the merger agreement and the rights under the investors rights agreement. For more information, please see "The Merger Investors Rights Agreement with Holders of Resaca Preferred Stock" beginning on page I-113 and "The Merger Agreement Manner and Basis of Converting Securities" beginning on page I-121.

Q: **What are the terms of the investors rights agreement?**

A: In connection with the issuance of the Resaca preferred stock to the current holders of the Cano preferred Stock, Resaca entered into the investors rights agreement with the holders of the Resaca

preferred stock on April 5, 2010. The investors rights agreement grants such shareholders substantially similar registration and other rights currently associated with the Cano preferred stock. The investors rights agreement is attached as Annex F to this proxy statement. For more information, please see "The Merger Investors Rights Agreement with Holders of Resaca Preferred Stock" beginning on page I-113.

Information regarding Resaca's annual meeting of shareholders

Q:

When will Resaca shareholders consider and vote upon the Merger and the Share Issuances, the Reverse Stock Split and the Incentive Plan Amendment?

A:

Resaca shareholders will consider and vote upon the Merger and the Share Issuances, the Reverse Stock Split and the Incentive Plan Amendment, as well as the Rig Acquisition and the election of directors, at its annual meeting of shareholders. The Resaca annual meeting of shareholders will take place on Wednesday, June 23, 2010 at 9:30 a.m., Houston, Texas time.

Q:

What constitutes a quorum at the Resaca annual meeting of shareholders?

A:

Shareholders who hold a majority in voting power of the Resaca common stock issued and outstanding as of the close of business on the record date and who are entitled to vote must be present or represented by proxy in order to constitute a quorum to conduct business at the Resaca annual meeting.

Q:

What vote is required for Resaca shareholder approval relating to the merger?

A:

The affirmative vote of a majority of the votes cast, affirmatively or negatively, at the Resaca annual meeting at which a quorum representing a majority of all outstanding voting stock is present, either in person or by proxy, is required to approve the Merger and the Share Issuances, the Incentive Plan Amendment and the Resaca meeting adjournment proposal. The affirmative vote of the holders of two-thirds of the outstanding shares of Resaca common stock entitled to vote on the approval of the Reverse Stock Split at the Resaca annual meeting at which a quorum representing a majority of all outstanding voting stock is present, either in person or by proxy, is required to approve the Reverse Stock Split. The affirmative vote of a majority of the votes cast, affirmatively or negatively, at the Resaca annual meeting at which a quorum representing a majority of all outstanding voting stock is present, either in person or by proxy, excluding any votes cast by any Resaca shareholder qualifying as a related-party in relation to the Rig Acquisition, is required to approve the Rig Acquisition.

Q:

Other than the Merger and the Share Issuances, will other matters be considered at the Resaca annual meeting?

A:

Yes. In addition to voting on the merger-related matters previously described (i.e., the Merger and the Share Issuances), at Resaca's annual meeting, Resaca shareholders will be asked to consider and vote on the following additional matters:

- to consider and vote upon a proposal to approve the Reverse Stock Split;

- to consider and vote upon a proposal to approve the Incentive Plan Amendment;

- to consider and vote upon a proposal to ratify the Rig Acquisition;

- in the event the Merger and the Share Issuances, the Reverse Stock Split and the Incentive Plan Amendment are approved, to consider and vote upon a proposal to:

(i) elect, and seat upon consummation of the Merger and the Share Issuances, William O. Powell, III as a Class I director to hold office until the 2012 annual meeting or until his successor is duly elected and qualified;

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(ii) elect, and seat upon consummation of the Merger and the Share Issuances, Garrett Smith as a Class II director to hold office until the 2013 annual meeting or until his successor is duly elected and qualified; and

(iii) elect, and seat upon consummation of the Merger and the Share Issuances, Donald W. Niemiec as a Class III director to hold office until the 2011 annual meeting or until his successor is duly elected and qualified;

to consider and vote upon a proposal to adjourn the annual meeting in order to solicit additional proxies if there are not sufficient votes in favor of any proposal; and

to consider and vote upon a proposal to:

(i) re-elect Judy Ley Allen as a Class II director to hold office until the 2013 annual meeting or until her successor is duly elected and qualified; and

(ii) re-elect Richard Kelly Plato as a Class II director to hold office until the 2013 annual meeting or until his successor is duly elected and qualified; and

to transact such other business incident to the conduct of the meeting as may properly come before the meeting or any adjournments or postponements thereof.

Q: **What vote is required for Resaca shareholder approval of such other matters other than the Merger and the Share Issuances, the Reverse Stock Split and the Incentive Plan Amendment?**

A: The ratification of the Rig Acquisition requires the affirmative vote of a majority of the votes cast, affirmatively or negatively, at the Resaca annual meeting at which a quorum representing a majority of all outstanding voting stock is present, either in person or by proxy excluding any votes cast from any Resaca shareholder qualifying as a related-party in relation to the Rig Acquisition. Abstentions and broker non-votes will have no effect on the outcome of the vote of such proposal.

A plurality of the votes cast at the Resaca annual meeting is required for the election of directors. This means that, if the Merger and the Share Issuances, the Reverse Stock Split and the Incentive Plan Amendment are approved, the three new director nominees (i.e., Messrs. Powell, Smith and Niemiec) receiving the highest number of affirmative votes cast at the annual meeting will be elected to the Resaca board of directors. Additionally, the two director nominees (i.e., Ms. Allen and Mr. Plato) receiving the highest number of affirmative votes cast at the annual meeting will be elected to the Resaca board of directors.

Q: **Why is Resaca proposing the Reverse Stock Split to its shareholders at its annual meeting?**

A: Resaca is proposing the Reverse Stock Split to increase the stock price for shares of Resaca common stock immediately prior to the merger so that the minimum listing requirements of the NYSE Amex can be satisfied. The NYSE Amex requires all new securities listing on its market to have a minimum market price of $2.00 per share. The effect of the Reverse Stock Split is to increase the stock price in the same proportion as the number of shares is adjusted downward, resulting in a five times increase in the stock price of Resaca common stock immediately prior to the merger. It is a condition precedent of the merger that Resaca common stock be listed on the NYSE Amex.

Q: **What is the principal effect of the Reverse Stock Split?**

A:

If approved, the Reverse Stock Split would occur immediately prior to the merger for all Resaca common stock, and the ratio of post-split shares for pre-split shares would be the same for all of such shares of Resaca common stock. The Reverse Stock Split would affect all Resaca shareholders uniformly and would not affect any shareholder's percentage ownership interest in Resaca immediately prior to the merger. In addition, the Reverse Stock Split would not affect any Resaca

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shareholder's proportionate voting rights. Each share of Resaca common stock outstanding after the Reverse Stock Split would be entitled to one vote and would remain fully paid and non-assessable.

The principal effects of the Reverse Stock Split would be that:

- based on shares outstanding as of May 28, 2010 and assuming a one-for-five reverse stock split, the number of shares of Resaca common stock issued and outstanding would be reduced from 96,947,494 shares to approximately 19,389,499, a decrease of approximately 77,557,995 shares, or approximately 80%;

- the exercise price and/or the number of shares of Resaca common stock issuable under Resaca's outstanding stock options would be proportionately adjusted based on the above ratio; and

- the number of shares of Resaca common stock reserved for issuance under the Incentive Plan would be reduced proportionally prior to the implementation of the Incentive Plan Amendment.

No scrip or fractional certificates will be issued in connection with the Reverse Stock Split. Instead, any fractional share that results from the Reverse Stock Split will be exchanged for cash in an amount equal to the closing price on the effective date of the merger.

A reduction in the number of outstanding shares of Resaca common stock could result in decreased liquidity in the combined company's common stock. In addition, the Reverse Stock Split could result in some Resaca shareholders owning "odd lots" of less than one hundred (100) shares of the Resaca common stock on a post-split basis. Odd lots may be more difficult to sell, or may require greater transaction costs per share to sell than do "board lots" of even multiples of one hundred (100) shares.

The number of authorized shares of Resaca common stock will not be affected by the Reverse Stock Split, and the Reverse Stock Split will not affect the par value of the Resaca common stock.

Q:

Why is Resaca proposing the Incentive Plan Amendment to its shareholders at its annual meeting?

A:

Resaca is proposing the Incentive Plan Amendment, to be implemented simultaneously with the merger and after giving effect to the Reverse Stock Split, in order to (i) reserve for issuance under the Incentive Plan an adequate number of shares of Resaca common stock to (a) implement the conversion of all outstanding Cano stock options into options to purchase Resaca common stock issued under the Incentive Plan; and (b) fund potential future awards under the Incentive Plan following the completion of the merger and (ii) to prohibit repricing of any awards granted under the Incentive Plan. The board of directors of Resaca believes that 4,000,000 additional shares of Resaca common stock, which number of shares has been adjusted for the Reverse Stock Split, represents a reasonable amount of potential equity dilution and allows the combined company to continue awarding stock options, restricted stock and other equity incentive awards, which are an important component of the combined company's overall compensation program. As of May 28, 2010 and assuming that the approval of the Reverse Stock Split occurred on May 28, 2010, only 563,715 shares of Resaca common stock would have been available for the issuance of awards under the Incentive Plan. Based on the closing price of Cano common stock of $1.11 and the closing price of Resaca common stock of $0.62 on May 28, 2010 and taking into consideration the need to convert Cano options into Resaca options in accordance with Section 424(a) of the Internal Revenue Code, approximately 473,678 shares of Resaca common stock must be available under the Incentive Plan for the conversion of the Cano stock options. Following the conversion of the Cano stock options and stock grants, and without the Incentive Plan Amendment, the Incentive Plan would only have 90,037 shares available for issuance. After the Incentive Plan Amendment is effective, 4,090,037 shares of Resaca common stock will be available for awards under the Incentive Plan. The board of directors believes that prohibiting the repricing of any awards granted under the Incentive Plan aligns the Incentive Plan with Resaca's past practices.

Q:

What assets did Resaca purchase in the Rig Acquisition?

A:

Resaca purchased (i) personal property consisting of workover rigs, reverse units/tank, power swivels, vehicles (trucks, trailers, construction equipment), shop equipment, and related equipment; (ii) books and files relating to such personal property and (iii) real property consisting of land, a building and a yard located at 2103 Maurice Road, Odessa, Texas, which we collectively refer to as the Rig Assets.

Q:

What consideration did Resaca pay for the Rig Assets?

A:

The purchase price for the Rig Assets was $1,593,720 ($1,604,995 value of the Rig Assets *minus* $11,275 for related taxes). Resaca issued 3,320,250 shares of Resaca common stock in exchange for the Rig Assets, which number of shares was determined by dividing the purchase price by $0.48 or £0.295 (which was the closing stock price on the AIM for Resaca common stock on July 6, 2009), after applying an exchange rate of $1.627 per British pound. At the request of the seller, PBWS, an affiliate of Resaca, the shares were issued to Torch E&P Company, a current shareholder of Resaca indirectly owned by its Chairman of the Board and Chief Executive Officer.

Q:

Who are related-party shareholders in the Rig Acquisition?

A:

Torch E&P Company, J.P. Bryan, Resaca's Chairman of the Board, and John J. Lendrum, III, Resaca's Chief Executive Officer are related-party shareholders in the Rig Acquisition. These related-party shareholders have agreed to abstain from voting on the Rig Acquisition proposal at Resaca's annual meeting.

Q:

What are the terms of the offering?

A:

Resaca expects to offer between $50 million and $75 million in shares of Resaca common stock in an underwritten public offering (which amount includes the underwriters' 30 day option to purchase additional shares of Resaca common stock to cover overallotments, and which amount may be increased or decreased in the sole discretion of the Resaca board of directors in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder). The actual amount of the offering may vary, based upon market conditions at the time.

Q:

What will the proceeds of the offering be used for?

A:

We intend to use the net proceeds of the offering to repay between $43 million and $67 million of existing indebtedness for the combined company, depending on the actual size of the offering. The remaining proceeds of the offering and the proceeds from any exercise of the underwriters' option to purchase additional shares will be retained as cash for future general corporate purposes, including severance and merger related expenses.

SUMMARY

This summary primarily highlights selected information contained in this proxy statement and does not contain all of the information that may be important to you. We encourage you to read this proxy statement in its entirety, as well as the annexes. We have included page references to direct you to the more complete descriptions of the topics presented in this summary that are contained in this proxy statement. We have defined certain oil and gas industry terms used in this document in the "Glossary of Oil and Gas Terms" attached as Annex G to this proxy statement.

The Parties

Resaca

Resaca is an independent oil and gas exploitation company headquartered in Houston, Texas. The company was formed in the State of Texas in 2006 to exploit a number of oil and gas properties in the Permian Basin of the United States. Resaca was admitted to trading on the AIM on July 17, 2008. Resaca's activities in the energy industry are distinct from those of a traditional exploration and production company whose focus is on new, unproven reserves. Resaca exploits known, mature, proven and probable low-risk oil and gas reserves. Resaca utilizes the latest technology available to achieve secondary and tertiary hydrocarbon recovery. Resaca's activities are focused in the Permian Basin of West Texas and southeast New Mexico. Over the long term, however, Resaca will pursue attractive exploitation opportunities in other U.S. basins and in areas outside the United States.

For the fiscal year ended June 30, 2009, Resaca had revenues of approximately $14.6 million (excluding gains and losses on price risk management activities) and net income of approximately $2.7 million. For the nine months ended March 31, 2010, Resaca had revenues of approximately $11.3 million (excluding gains and losses on price risk management activities) and a net loss of approximately $6.7 million.

Cano

Cano is an independent oil and natural gas company. Cano's strategy is to exploit its current undeveloped reserves and acquire, where economically prudent, assets suitable for enhanced oil recovery at a low cost. Cano intends to convert its proved undeveloped and/or non-proved reserves at its existing properties and properties Cano may acquire in the future into proved producing reserves by applying water, gas and/or chemical flooding and other techniques. Cano's assets are located onshore U.S. in Texas, New Mexico and Oklahoma.

Cano was organized as a corporation under the laws of the State of Delaware in May 2003 as Huron Ventures, Inc. On May 28, 2004, Cano merged with Davenport Field Unit, Inc., an Oklahoma corporation, and certain other entities, which we refer to as the Davenport Merger. In connection with the Davenport Merger, Cano changed its name to Cano Petroleum, Inc. Prior to the Davenport Merger, Cano was inactive with no significant operations.

For the fiscal year ended June 30, 2009, Cano had revenues of approximately $25.4 million and net income applicable to Cano common stock of approximately $7.9 million. For the nine months ended March 31, 2010, Cano had revenues of approximately $16.4 million and net loss applicable to Cano common stock of approximately $13.1 million.

Merger Sub

Merger Sub, a wholly-owned subsidiary of Resaca, is a Delaware corporation formed on September 25, 2009, for the purpose of effecting the merger. Upon completion of the merger, Merger Sub will merge with and into Cano, and Cano will become a wholly-owned subsidiary of Resaca.

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Merger Sub has not conducted any activities other than those incidental to its formation and the matters contemplated by the merger agreement.

The Merger of Resaca and Cano

On September 29, 2009, Resaca and Cano entered into the merger agreement, pursuant to which Cano will merge with Merger Sub, a newly formed, wholly owned subsidiary of Resaca, with Cano thereupon becoming a wholly owned subsidiary of Resaca. In the merger, Cano common stockholders will receive 0.42 shares of Resaca common stock for each share of Cano common stock, and Cano preferred stockholders will receive one share of Resaca preferred stock for each share of Cano preferred stock. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the completion of the merger. Resaca shareholders will continue to own their existing shares, which will not be affected by the merger, except for dilution resulting from the issuance of Resaca common stock and Resaca preferred stock in conjunction with the merger.

Due to Resaca's and Cano's complementary asset bases and similar strategic focus, we believe that the combined company will benefit from (i) balancing Resaca's near-term growth opportunities with Cano's longer-term development opportunities, (ii) capitalizing on significant cost savings and efficiencies through operational and administrative synergies in the range of $4.5 million to $5.0 million per year, (iii) increasing near-term production by the sharing of engineering expertise among Resaca and Cano management and staff, (iv) optimizing our larger and more diverse portfolio of combined assets, and (v) expanding our access to capital because of the combined company's increased size. For a more detailed description of the merger, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations of Resaca The Merger" beginning on page III-27 of this proxy statement.

The Combined Company

At June 30, 2009, our estimated proved reserves had the following characteristics on a pro forma combined basis:

- 63.3 MMBOE;
- PV-10 value of $664.5 million;
- 80% crude oil (as measured by MMBOE);
- 29% proved developed (as measured by MMBOE); and
- A proved developed reserve life index of approximately 27 years (based upon production for the year ended June 30, 2009).

Our estimated combined June 30, 2009 proved reserves of 63.3 MMBOE include 10.1 MMBOE of PDP, 8.0 MMBOE of PDNP, and 45.2 MMBOE of PUD. Reserves were estimated using New York Mercantile Exchange, which we refer to as NYMEX, crude oil and natural gas prices and production and development costs in effect on June 30, 2009. NYMEX crude oil price used in the estimation of Resaca's and Cano's reserves was $69.89 per barrel. NYMEX natural gas prices used in the estimation of Resaca's and Cano's reserves were $3.84 per MMBtu and $3.71 per MMBtu, respectively. The values reported may not necessarily reflect the fair market value of the reserves. For a more detailed description of the combined company's reserves, please read "Business and Properties Combined Company Production, Estimated Proved Reserves and Acreage" beginning on page III-12 of this proxy statement.

Our properties are contained in eight primary field complexes and a group of minor fields in mature oil and gas producing basins in Texas, New Mexico and Oklahoma and consist of approximately 75,000 gross and 73,000 net acres. At May 28, 2010, on a pro forma combined basis, we operated

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approximately 1,904 active wells, including 1,501 producing wells, 391 waterflood injection wells, and 12 salt water disposal wells. For the month ended April 30, 2010, on a pro forma combined basis, we produced an average of 1,923 net BOE per day from over 25 separate formations, which was composed of approximately 76% oil and approximately 24% natural gas. Nearly all of our production is from relatively shallow formations.

Our exploitation plan involves the reactivation of shut-in wells, recompletion of currently producing wells, including refracturing, implementation of new waterfloods, reactivation and optimization of the existing waterfloods and an infill drilling program. We believe our properties contain many opportunities for the development of low risk oil and gas reserves and many of our properties are candidates for tertiary recovery by CO_2 flooding based on reports and studies performed on these properties.

For the year ended June 30, 2009, we generated pro forma combined operating revenues of $43.1 million and pro forma combined net income of $25.8 million. For the nine months ended March 31, 2010, we generated pro forma combined operating revenues of $28.7 million and pro forma combined net loss of $17.9 million.

Combined Production and Reserve Data

The following table shows selected data concerning our combined production, estimated proved reserves and acreage for the periods indicated on a pro forma combined basis:

Field	April 2010 Average Daily Production (BOE)	Total Est. Proved Reserves MMBOE (As of June 30, 2009)(1)	Percent of Total Est. Proved Reserves MMBOE	PV-10 (As of June 30, 2009) (In Millions)(1)	Gross Acres (As of May 28, 2010)(2)	Net Acres (As of May 28, 2010)(3)
Texas Properties						
Panhandle Properties	563	28.9	45.7%	$ 323.9	20,387	20,387
Penwell Properties	155	1.7	2.7%	19.8	3,120	3,120
Desdemona Properties	78	1.4	2.2%	7.1	11,264	11,264
Grand Clearfork Unit Properties	46	0.5	0.8%	4.6	1,120	1,120
Other Minor Properties	153	2.0	3.1%	31.4	7,890	7,823
New Mexico Properties						
Cato Properties	254	16.0	25.3%	116.5	21,122	20,662
Cooper Jal Unit Properties	364	9.8	15.5%	134.8	2,560	1,855
Other Minor Properties	7	0.2	0.3%	2.6	320	240
Oklahoma Properties						
Nowata Properties	223	1.5	2.4%	13.9	4,594	4,594
Davenport Properties	80	1.3	2.0%	9.9	2,178	2,178

Total	**1,923**	**63.3**	**100.0% $**	**664.5**	**74,555**	**73,243**

(1) PV-10 is a non-GAAP financial measure and generally differs from the standardized measure of discounted future net cash flows, the most directly comparable Generally Accepted Accounting Principles, which we refer to as GAAP, financial measure, because it does not include the effects of income taxes on future net revenues. At June 30, 2009, our standardized measure of discounted future net cash flows was $418.2 million on a pro forma combined basis as shown below. Our estimated proved reserves and future net revenues, PV-10, and standardized measure of discounted future net cash flows were determined using end of the period prices for oil and natural gas that Resaca and Cano realized as of June 30, 2009, which were $69.89 per Bbl of oil and $3.84 per MMBtu of natural gas and $69.89 per Bbl of oil and $3.71 per MMBtu of natural gas, respectively.

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The following table shows the combined company's reconciliation of our PV-10 to the standardized measure of discounted future net cash flows. PV-10 is our estimate of the present value of future net revenues from estimated proved oil and gas reserves after deducting estimated production and ad valorem taxes, future capital costs and operating expenses, but before deducting any estimates of future income taxes. The estimated future net revenues are discounted at an annual rate of 10% to determine their "present value." We believe PV-10 to be an important measure for evaluating the relative significance of our oil and gas properties and that the presentation of the non-GAAP financial measure of PV-10 provides useful information to investors because it is widely used by professional analysts and sophisticated investors in evaluating oil and gas companies. Because there are many unique factors that can impact an individual company when estimating the amount of future income taxes to be paid, we believe the use of a pre-tax measure is valuable for evaluating our company. We believe that most other companies in the oil and gas industry calculate PV-10 on the same basis.

PV-10 should not be considered as an alternative to the standardized measure of discounted future net cash flows as computed under GAAP.

(in millions)		Pro Forma as of June 30, 2009
PV-10	$	664.5
Less: Undiscounted income taxes		(689.8)
Plus: 10% discount factor		443.5
Discounted income taxes		(246.3)
Standard measure of discounted future net cash flows	$	418.2

(2) "Gross" acres refers to acreage in which we have a working interest.

(3) "Net" acres refers to the aggregate of our percentage working interest in gross acreage before royalties or other payouts, as appropriate.

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Areas of Operations

Pro Forma Combined Assets as of June 30, 2009:
Proved Reserves of 63.3 MMBOE
PV-10 value of $664.5 million
80% crude oil (as measured by MMBOE)
Proved developed reserve life index of approximately 27 years
1,904 active operated wells (May 28, 2010)
75,000 gross acres, 73,000 net acres (May 28, 2010)

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Our Properties

The following is a brief summary of the combined company's properties:

Panhandle Properties. The Panhandle Properties are located on 20,387 gross and net acres in Carson, Gray, Hutchinson and Roberts Counties, Texas and produce from the Brown, White and Arkosic Dolomite formations and the Granite Wash sandstone formation. Estimated proved reserves as of June 30, 2009 attributable to the Panhandle Properties were 28.9 MMBOE.

Cato Properties. The Cato Properties are located on 21,122 gross (20,662 net) acres in Chavez and Roosevelt Counties, New Mexico and produce from the San Andres formation. Estimated proved reserves as of June 30, 2009 attributable to the Cato Properties were 16.0 MMBOE.

Cooper Jal Unit Properties. The Cooper Jal Unit Properties are located on 2,560 gross (1,855 net) acres in Lea County, New Mexico and produce from the Yates, Seven Rivers and Queens formations. Estimated proved reserves as of June 30, 2009 attributable to Cooper Jal Unit Properties were 9.8 MMBOE.

Penwell Properties. The Penwell Properties are comprised of two units, the Jordan San Andres Unit (1,280 gross and net acres) and the Edwards Grayburg Unit (1,840 gross and net acres), located in Ector and Crane Counties, Texas and produce from the San Andres, Grayburg and Queen formations. Estimated proved reserves as of June 30, 2009 attributable to the Penwell Properties were 1.7 MMBOE.

Nowata Properties. The Nowata Properties are located on 4,594 gross and net acres in Nowata County, Oklahoma and produce from the Bartlesville Sandstone formation. Estimated proved reserves as of June 30, 2009 attributable to the Nowata Properties were 1.5 MMBOE.

Desdemona Properties. The Desdemona Properties are located on 11,264 gross and net acres in Erath, Comanche and Eastland Counties, Texas and produce from the Barnett Shale, Duke Sands, Strawn Sand and Marble Falls Lime formations. Estimated proved reserves as of June 30, 2009 attributable to the Desdemona Properties were 1.4 MMBOE.

Davenport Properties. The Davenport Properties are located on 2,178 gross and net acres in Lincoln County, Oklahoma and produce from the Prue Sand formation. Estimated proved reserves as of June 30, 2009 attributable to the Davenport Properties were 1.3 MMBOE.

Grand Clearfork Unit Properties. The Grand Clearfork Unit Properties are located on 1,120 gross and net acres in Pecos County, Texas and produce from both the Upper and Lower Clearfork formations at an average depth of approximately 2,500 feet. Estimated proved reserves as of June 30, 2009 attributable to Grand Clearfork Unit Properties were 0.5 MMBOE.

Other Minor Properties. These fields are located on 8,210 gross (8,063 net) acres in Winkler, Howard, Ector and Crane Counties in Texas and Eddy County, New Mexico and include the Kermit Complex, Iatan North, Kayser (Cowden South), McElroy and Cotton Draw/BTBN. Estimated proved reserves as of June 30, 2009 attributable to these properties were 2.1 MMBOE.

For a more detailed description of the combined company's properties, please read "Chapter III Business & Financial Information of Resaca and Cano Business and Properties Our Business and Properties" beginning on page III-1 of this proxy statement.

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The Merger Agreement

A copy of the merger agreement is attached as Annex A to this proxy statement. We encourage you to read the entire merger agreement carefully because it is the principal document governing the merger. For more information on the merger agreement, see "The Merger Agreement" beginning on page I-120.

Structure of the Merger

Pursuant to the merger agreement, Merger Sub will merge with and into Cano, with Cano being the entity surviving the merger and becoming a wholly-owned subsidiary of Resaca.

Consideration to be Received in the Merger by Cano Stockholders

In the merger, each share of Cano common stock will be converted into the right to receive 0.42 shares of Resaca common stock, which we refer to as the exchange ratio. Immediately after the merger is completed, but immediately prior to the completion of the offering, Cano common stockholders will own approximately 50% of the common stock of the combined company, and the Resaca shareholders will own the remaining approximately 50%.

Each outstanding share of Cano preferred stock will be similarly converted into the right to receive one share of Resaca preferred stock. For more information, please see "The Merger Agreement Manner and Basis of Converting Securities" beginning on page I-121.

Holders of Cano common stock will not receive any fractional Resaca shares in the merger. Instead, the total number of shares that each holder of Cano common stock will receive in the merger will be rounded down to the nearest whole number, and Resaca will pay cash for any resulting fractional share that a Cano stockholder otherwise would be entitled to receive. The amount of cash payable for a fractional share of Cano common stock will be determined by multiplying the fraction by the average closing price for Resaca common stock for the fifteen trading days immediately prior to the merger.

The merger agreement provides for adjustments to the exchange ratio to reflect fully the effect of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares with respect to Cano preferred stock, Resaca common stock or Cano common stock with a record date prior to the merger. In this proxy statement, Resaca requests its shareholders to approve the Reverse Stock Split, to be affected immediately prior to the merger. The exchange ratio in the merger agreement prior to the effect of the Reverse Stock Split is 2.1 and following the effect of the Reverse Stock Split, assuming its approval by the Resaca shareholders at the annual meeting, the exchange ratio is 0.42. For a more complete description of the merger consideration, see "The Merger Agreement Manner and Basis of Converting Securities" beginning on page I-121.

Treatment of Stock Options, Restricted Stock and Other Stock-based Awards

Resaca stock options, restricted stock and other equity-based awards will remain outstanding and will not be affected by the merger.

If the merger occurs, all outstanding Cano stock options will immediately vest prior thereto and be converted into options of Resaca issued under the Incentive Plan, and those options will entitle the holder to receive Resaca common stock. The number of shares issuable under those options, and the exercise prices for those options, will be adjusted based on the exchange ratio. However, in any event the exercise price, the number of shares purchasable pursuant to the option and the terms and conditions of exercise of such option will be determined in accordance with the requirements of Section 424(a) of the Internal Revenue Code and in a manner that does not cause any option to be deferred compensation subject to Section 409A of the Internal Revenue Code. For a more complete

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discussion of the treatment of Cano options, please see "The Merger Agreement Manner and Basis of Converting Securities" beginning on page I-121.

Immediately prior to the completion of the merger, all restrictions on Cano restricted stock awards will expire and each outstanding share will be converted into the right to receive 0.42 shares of Resaca common stock at the effective time of the merger. For more information, please see "The Merger Agreement Manner and Basis of Converting Securities" beginning on page I-121.

Directors and Executive Management Following the Merger

The Resaca board of directors after the merger will be increased from five to seven directors. J.P. Bryan, Resaca's Chairman, will remain Chairman of the Board of the combined company and assume the role of Chief Executive Officer of the combined company. Richard Kelly Plato, a current Resaca director, is also standing for re-election, but will resign from Resaca's board of directors upon completion of the merger. Resaca's independent directors have nominated Donald W. Niemiec, William O. Powell, III and Garrett Smith, each of whom is currently a director of Cano, to serve on the Resaca board immediately after the merger. Judy Ley Allen, a current Resaca director, is also standing for re-election at the Resaca annual meeting of shareholders. As a result, following the merger, the combined company's board will consist of four individuals previously serving as Resaca directors and three individuals previously serving as Cano directors.

Additionally, upon consummation of the merger, the following Resaca officers will resign: (i) Jay Lendrum, Chief Executive Officer, however, Mr. Lendrum will continue to serve as a director of the combined company and Vice Chairman of the Board; (ii) Mary Lou Fry, Vice President, General Counsel and Secretary; and (iii) Randy Ziebarth, Vice President Operations. The following Cano officers will be appointed as officers of the combined company: (i) Phillip B. Feiner, Vice President, General Counsel and Corporate Secretary; and (ii) Michael Ricketts, Vice President and Chief Accounting Officer. In addition, Dennis Hammond will continue as the combined company's President and Chief Operating Officer. Chris Work will continue as Chief Financial Officer of the combined company and will also have the title of Senior Vice President.

For a more complete discussion of the directors and management of the combined company, see "Management" beginning on page I-130.

Recommendations of the Cano Board of Directors

After careful consideration, the Cano board of directors recommends that holders of Cano common stock and Cano preferred stock vote "FOR" the adoption of the merger agreement and the approval of the Cano Series D Amendment.

For a more complete description of Cano's reasons for the merger and the recommendations of the Cano board of directors, see "The Merger Cano's Reasons for the Merger" and " Recommendation of the Cano Board of Directors" beginning on pages I-90 and I-93, respectively.

Financial Advisors

Resaca Financial Advisor

Resaca's board of directors received the advice and considered the analyses of Madison Williams and Company (formerly known as SMH Capital Inc.), which we refer to as Madison Williams, in deciding to recommend the merger to its shareholders for approval.

Cano Financial Advisor

On September 29, 2009, RBC, Cano's financial advisor, rendered its oral opinion to the Cano board of directors, which opinion was subsequently confirmed in writing, that, based on RBC's experience as investment bankers, as of that date and subject to the various assumptions and limitations set forth in its opinion, the exchange ratio in the merger of 2.1 shares of Resaca common stock for each share of Cano common stock (which does not give effect to the Reverse Stock Split) is fair, from a financial point of view, to the holders of Cano common stock. The full text of RBC's written opinion, which sets forth material information relating to such opinion, including the assumptions made, matters considered and qualifications and limitations on the scope of review undertaken by RBC, is attached as Annex B to this proxy statement. We urge you to read RBC's opinion carefully in its entirety. **RBC's opinion was provided for the information and assistance of the Cano board of directors in connection with its consideration of the merger and was not on behalf of any other entity or person. RBC's opinion addressed solely the fairness of the exchange ratio, from a financial point of view, to the holders of shares of Cano common stock and did not in any way address other terms or conditions of the merger or the merger agreement. RBC expressed no opinion and made no recommendation to any stockholder of Cano or Resaca or any other person as to how such stockholder or other person should vote or act with respect to any matter related to the merger.** For a more detailed discussion of RBC's opinion, please see "The Merger Opinion of Cano's Financial Advisor" beginning on page I-94.

Interests of Cano Directors and Executive Officers in the Merger

You should be aware that some of the directors and officers of Cano have interests in the merger that are different from, or are in addition to, the interests of Cano stockholders generally. These interests relate to the treatment of equity-based compensation awards held by directors and executive officers of Cano in the merger, the appointment of three existing Cano directors as directors of the combined company after the merger, separation arrangements covering certain of Cano's executive officers, and the indemnification of Cano's current directors and officers by Resaca for six years after the merger.

As of the date of this proxy statement, except for existing Cano employment agreements with certain of its executive officers, there are no agreements with Resaca for the employment of any of Cano's directors or the continuing employment of any of Cano's executive officers. Other than as set forth above, the interests of Cano's directors and executive officers in the merger are limited to their interests as stockholders or option holders of Cano.

Cano's directors and executive officers beneficially owned approximately 6.1% of the shares of Cano common stock and 3.6% of shares of Cano preferred stock as of the record date for the Cano annual meeting.

For a further discussion of interests of Cano directors and executive officers in the merger, see "The Merger Interests of Certain Persons in the Merger" beginning on page I-107.

Material U.S. Federal Income Tax Consequences of the Merger

Resaca and Cano intend for the merger to qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Accordingly, the merger is expected to be a tax-free transaction to the Cano stockholders to the extent the Cano common stockholders receive Resaca common stock and the Cano preferred stockholders receive Resaca preferred stock in the merger, except for cash received in lieu of fractional shares of Resaca common stock. It is a condition to each of Resaca's and Cano's respective obligations to complete the merger that Cano receive a legal opinion from tax counsel that the merger will be treated for U.S. federal income tax purposes as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

For a more complete description of the material U.S. federal income tax consequences of the merger, see "Material U.S. Federal Income Tax Consequences of the Merger" beginning on page I-116.

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The tax consequences of the merger to you may depend on your own situation. In addition, you may be subject to state, local or foreign tax laws that are not addressed in this proxy statement. You are urged to consult with your own tax advisor for a full understanding of the tax consequences of the merger to you.

Accounting Treatment of the Merger

The merger will be accounted for as an acquisition by Resaca of Cano under the purchase method of accounting according to U.S. generally accepted accounting principles. For a more detailed discussion of the accounting treatment of the merger, please see "The Merger Accounting Treatment" on page I-107.

Appraisal Rights

Under Section 262 of the DGCL, the holders of Cano preferred stock will have the right to seek appraisal of the fair value of their shares. However, the holders of Resaca common stock and the holders of Cano common stock do not have appraisal rights in connection with the merger. For a more detailed discussion of appraisal rights, please see "The Merger Appraisal Rights" beginning on page I-109.

Risks Associated with the Merger

In addition to the other information contained in this proxy statement, you should be aware of and carefully consider the risks relating to the merger described under "Risk Factors" beginning on page I-54 of this proxy statement in deciding whether to vote in favor of the adoption of the merger agreement and the Cano Series D Amendment.

Material Differences in the Rights of Cano Stockholders and Resaca Shareholders

The rights of Cano stockholders are governed by the DGCL and Cano's amended certificate of incorporation, which we refer to as the Cano certificate of incorporation, and Cano's second amended and restated bylaws, which we refer to as the Cano bylaws and the Cano certificate of incorporation and the Cano bylaws are collectively referred to as the Cano charter documents. Upon completion of the merger, Cano stockholders who receive Resaca common stock or Resaca preferred stock will be shareholders of Resaca, and their rights will be governed by the Texas Business Organizations Code, which we refer to as the TBOC, and Resaca's certificate of formation, as amended, which we refer to as the Resaca certificate of formation, and Resaca's bylaws, which we refer to as the Resaca bylaws, and the Resaca certificate of formation and the Resaca bylaws we refer to collectively as the Resaca charter documents.

The DGCL and the Cano charter documents differ from the TBOC and the Resaca charter documents in some material respects. One material difference is the required vote to approve a fundamental action, such as a charter amendment or merger. To approve a fundamental action, the TBOC requires an affirmative vote of at least two-thirds of the outstanding shares of Resaca common stock entitled to vote on the fundamental action. The DGCL requires a lesser vote of a majority of the outstanding shares of Cano common stock entitled to vote. The right to act by written consent also differs between Resaca shareholders and Cano stockholders. Cano stockholders are permitted to act by written consent in accordance with their bylaws, but Resaca shareholders are expressly prohibited from doing so under Resaca's certificate of formation.

Similarly, there are some material differences in the rights of the holders of Resaca preferred stock and the Cano preferred stock. The conversion price of the Cano preferred stock is $5.75 per share. Following the merger, the conversion price of the Resaca preferred stock will be $4.963 per share, assuming the approval of the Reverse Stock Split. The anti-dilution adjustment feature of the conversion price of the Resaca preferred stock and the Cano preferred stock also differs. For the nine-month period following the initial issuance date, the conversion price of Resaca preferred stock will not be reduced for equity issued at a price greater than the market price of $3.971 per share as adjusted for the Reverse Stock Split. The conversion price of Cano preferred stock adjusts if equity issued is at a price less than the conversion price then in effect. For the nine-months following the completion of the merger, Resaca will not issue Resaca common stock for proceeds of more than $30 million at a gross per share price below $3.971 without prior consent of the holders of Resaca preferred stock and Cano preferred stock does not contain this restriction. The maturity date for the Resaca preferred stock will be October 6, 2012, a thirteen month extension from the maturity date set for the Cano preferred stock, which was September 6, 2011.

For more information on these differences, see "Comparison of Rights of Resaca Shareholders and Cano Stockholders" beginning on page I-145.

Conditions to Completion of the Merger

We expect to complete the merger after all the conditions to the merger in the merger agreement are satisfied or waived, including after we receive shareholder approval at the Resaca annual meeting and stockholder approval at the Cano special meeting and receive all required regulatory and third-party approvals. We currently expect to complete the merger by the end of June 2010. However, it is possible that factors outside of our control could require us to complete the merger at a later time or not to complete it at all.

Each party's obligation to complete the merger is subject to the satisfaction or waiver of various conditions, including the following:

- receipt of the required shareholder and stockholder approvals;
- receipt of NYSE Amex authorization for listing of Resaca common stock to be issued in the merger or reserved for issuance upon exercise of converted Cano options, which was recieved by Resaca on March 30, 2010;
- receipt of AIM authorization for readmission of Resaca common stock, which is anticipated to occur simultaneous with the closing of the merger;
- receipt of any required regulatory approvals;
- the SEC declaring effective the registration statement, of which this proxy statement is a part, and the registration statement not being subject to any stop order or threatened stop order;
- no injunctions, restraints, legal restraints or prohibitions preventing the consummation of the merger;
- no action taken by any governmental entity, or other circumstance, which imposes any restriction upon Resaca or the combined company which would have a material adverse effect on Resaca after the effective time of the merger;
- accuracy of the other party's representations and warranties in the merger agreement, including their representation that no material adverse change has occurred;
- the number of Cano dissenting shares does not exceed 1% of the total number of Cano common shares outstanding on the record date for the Cano special meeting;

all indebtedness under Resaca's and Cano's credit facilities having been repaid or refinanced, or Resaca and Cano having received consent of the lenders under such credit facilities to enter into the merger, which consents Resaca and Cano expect to receive prior to the marketing of the offering;

the other party's compliance with its obligations under the merger agreement; and

receipt by Cano of a legal opinion of its tax counsel with respect to certain U.S. federal income tax consequences of the merger.

The merger agreement provides that any or all of these conditions may be waived, in whole or in part, by Resaca or Cano, to the extent legally allowed. Neither Resaca nor Cano currently expects to waive any material condition to the completion of the merger. If either Resaca or Cano determines to waive any condition to the merger that would result in a material and adverse change in the terms of the merger to Resaca shareholders or Cano stockholders (including any change in the tax consequences of the transaction to Cano stockholders), if the offering cannot be completed or if the indebtedness under Resaca's and Cano's credit facilities cannot be repaid or refinanced, proxies would be resolicited from the Resaca shareholders or Cano stockholders, as applicable.

In addition, the merger, the offering and refinancing of the combined company's indebtedness are each conditioned upon the closing of the other. For a more complete discussion of the conditions to the merger, see "The Merger Agreement Conditions to the Merger" beginning on page I-124.

Timing of the Merger

The merger is expected to be completed by the end of June 2010, subject to the satisfaction or waiver of closing conditions. However, it is possible that factors outside of either company's control could require Resaca or Cano to complete the merger at a later time or not to complete it at all.

No Solicitation of Other Offers

In the merger agreement, each of Resaca and Cano has agreed that it will not directly or indirectly:

- solicit, initiate, encourage any acquisition proposal or any inquiries or the making of any proposal that constitutes or could reasonably be expected to lead to an acquisition proposal;
- approve or recommend entry into any agreement with respect to an acquisition proposal; or
- encourage or participate in discussions or negotiations with, or disclose any nonpublic information with respect to, or otherwise cooperate in any way with, an acquisition proposal.

The merger agreement does not, however, prohibit either party from considering a bona fide acquisition proposal from a third party if certain specified conditions are met. For a discussion of the prohibition on solicitation of acquisition proposals from third parties, see "The Merger Agreement Certain Additional Provisions Acquisition Proposals (No-Shop Provisions)" beginning on page I-124.

Termination of the Merger Agreement

Generally, the merger agreement may be terminated and the merger may be abandoned at any time prior to the completion of the merger (including after Resaca shareholder or Cano stockholder approval). In addition, either party can unilaterally terminate the merger agreement in various circumstances, including the following:

- if the merger has not been completed by June 30, 2010, and if the terminating party has not materially breached its obligations under the merger agreement in a manner that proximately contributed to the failure to consummate the merger on or prior to such date;
- if Cano stockholders fail to adopt the merger agreement or Resaca shareholders fail to approve the issuance of Resaca common stock and Resaca preferred stock as a result of the merger;
- if the other party fails to cure a material breach of the merger agreement;

if a party enters into an alternative transaction, or its board of directors changes its recommendation of the merger; or

if it becomes reasonably apparent that all indebtedness under either party's credit facilities will not be repaid or refinanced prior to or at the completion of the merger or if either company will not receive consent under such credit facilities to enter into the merger; provided the

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terminating company has not materially breached its obligations under the merger agreement in a manner that proximately contributed to the failure to repay or refinance or obtain the consent of the lenders.

Termination Fees

Upon the occurrence of certain termination events in connection with an offer or proposal regarding a business combination, Resaca or Cano may be required to pay the other a termination fee of $3.5 million.

This termination fee could discourage other companies from seeking to acquire or merge with either Cano or Resaca. See "The Merger Agreement Termination" and " Termination Fees and Expenses" beginning on pages I-126 and I-127 respectively.

The Meetings Matters to be Considered

Resaca Annual Meeting of Shareholders

The Resaca annual meeting will take place on Wednesday, June 23, 2010 at 9:30 a.m., Houston, Texas time. The location of the annual meeting is Resaca's executive offices located at 1331 Lamar, Suite 1450, Houston, Texas 77010. Resaca's shareholders will be asked to vote on the following proposals:

1. to approve the Merger and the Share Issuances;

2. to approve the Reverse Stock Split;

3. to approve the Incentive Plan Amendment;

4. to approve the ratification of the Rig Acquisition;

5. in the event that the Merger and the Share Issuances, the Reverse Stock Split and the Incentive Plan Amendment are approved, to consider and vote upon a proposal to:

   (i) elect, and seat upon consummation of the Merger and the Shares Issuances, William O. Powell, III as a Class I director to hold office until the 2012 annual meeting or until his successor is duly elected and qualified;

   (ii) elect, and seat upon consummation of the Merger and the Shares Issuances, Garrett Smith as a Class II director to hold office until the 2013 annual meeting or until his successor is duly elected and qualified; and

   (iii) elect, and seat upon consummation of the Merger and the Shares Issuances, Donald W. Niemiec as a Class III director to hold office until the 2011 annual meeting or until his successor is duly elected and qualified;

6. to approve a proposal to adjourn the annual meeting to a later date or dates, if necessary, to solicit additional proxies if there are not sufficient votes in favor of any proposal;

7. to consider and vote upon a proposal to:

   (i) re-elect Judy Ley Allen as a Class II director to hold office until the 2013 annual meeting or until her successor is duly elected and qualified; and

(ii) re-elect Richard Kelly Plato as a Class II director to hold office until the 2013 annual meeting or until his successor is duly elected and qualified; and

8. to transact any other business incident to the conduct of the meeting as may properly come before the Resaca annual meeting or any adjournment or postponement thereof.

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The first three proposals listed above relating to the Merger and the Share Issuances, the Reverse Stock Split and the Incentive Plan Amendment are conditioned upon each other and the approval of each such proposal is required for completion of the merger.

A separate proxy statement will be mailed to the Resaca shareholders on or about June 1, 2010.

Cano Special Meeting of Stockholders

The Cano special meeting will take place on Wednesday, June 23, 2010 at 10:00 a.m., Fort Worth, Texas time. The location of the special meeting is The Fort Worth Club located at 306 W. 7th Street, Suite 1100, Fort Worth, Texas 76102. Cano's stockholders will be asked to vote on the following proposals:

1. to adopt the merger agreement;

2. to approve the Cano Series D Amendment;

3. to approve any motion to adjourn or postpone the Cano annual meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of preceding two proposals; and

4. to transact any other business incident to the conduct of the meeting as may properly come before the Cano special meeting or any adjournment or postponement thereof.

The Cano board of directors recommends that Cano stockholders vote "FOR" all of the proposals set forth above, as more fully described under "The Cano Special Meeting of Stockholders" beginning on page II-1.

Record Dates; Share Ownership of Directors and Executive Officers

Resaca

Resaca shareholders may vote at the Resaca annual meeting if they owned Resaca common stock at the close of business on May 21, 2010, the Resaca record date. As of the Resaca record date and prior to the effect of the Reverse Stock Split, directors and executive officers of Resaca and their affiliates owned and were entitled to vote 19,197,804 shares of Resaca common stock or approximately 19.8% of the total voting power of the shares of Resaca common stock outstanding on that date.

Cano

You may vote at the special meeting of Cano stockholders if you owned Cano common stock or Cano preferred stock at the close of business on May 21, 2010, the Cano record date. As of the Cano record date, directors and executive officers of Cano and their affiliates owned and were entitled to vote 2,773,931 shares of Cano common stock, or approximately 6.1% of the shares of Cano common stock outstanding on that date, and 1,000 shares of Cano preferred stock, or approximately 3.6% of the shares of Cano preferred stock outstanding on that date.

Votes Required

Resaca

Each share of Resaca common stock will be entitled to one vote at the Resaca annual meeting. At the Resaca annual meeting, assuming a quorum is present:

- the affirmative vote of a majority of the votes cast, affirmatively or negatively, at the Resaca annual meeting at which a quorum representing a majority of all outstanding voting stock is present, either in person or by proxy, is required to approve the Merger and the Share Issuances, the Incentive Plan Amendment and the Resaca meeting adjournment proposal, and any other matters that may come before the Resaca shareholders at the meeting;

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- The affirmative vote of the holders of two-thirds of the outstanding shares of Resaca common stock entitled to vote on the approval of the Reverse Stock Split at the annual meeting at which a quorum representing a majority of all outstanding voting stock is present, either in person or by proxy, is required to approve the Reverse Stock Split;

- the affirmative vote of a majority of the votes cast, affirmatively or negatively, at the Resaca annual meeting at which a quorum representing a majority of all outstanding voting stock is present, either in person or by proxy, excluding any votes cast from any Resaca shareholder qualifying as a related-party in relation to the Rig Acquisition, is required to approve the Rig Acquisition; and

- directors will be elected by a plurality of the votes cast.

Cano

Each share of Cano common stock is entitled to one vote at the special meeting. Each share of Cano preferred stock is entitled to (i) one vote per share on the adoption of the merger agreement and the approval of the Cano Series D Amendment; and (ii) approximately 173.913 votes per share (voting on an as-converted basis to Cano common stock) on approval of the Cano meeting adjournment proposal and any other matters that may come before the Cano stockholders at the special meeting. At the Cano special meeting, assuming a quorum is present:

- the affirmative vote of a majority of the outstanding shares of Cano common stock, voting as a separate class, and the affirmative vote of a majority of the outstanding shares of preferred stock of Cano, voting as a separate class, is required to adopt the merger agreement and to approve the Cano Series D Amendment; and

- the affirmative vote of a majority of the shares cast affirmatively or negatively of Cano common stock and Cano preferred stock, voting as a single class with the Cano preferred stock voting on an as-converted basis to Cano common stock, is required to approve the Cano meeting adjournment proposal and any other matters that may come before the stockholders at the meeting.

As of April 5, 2010, the holders of a majority of the outstanding shares of Cano preferred stock had executed and delivered voting agreements, with irrevocable proxies, agreeing to vote in favor of the Cano Series D Amendment and the merger agreement and executed a written consent in lieu of special meeting, whereby those holders approved the Cano Series D Amendment and the adoption of the merger agreement.

Quorum and Abstentions

A quorum must be present to conduct business at each of the meetings. This means that at the Resaca annual meeting, shareholders who hold a majority in voting power of the Resaca common stock issued and outstanding as of the close of business on the record date and who are entitled to vote must be present or represented by proxy in order to constitute a quorum to conduct business at the annual meeting. At the Cano special meeting, greater than 50% of the outstanding shares of Cano common stock and Cano preferred stock as of the Cano record date must be represented in person or by proxy.

Abstentions and withhold votes will have no effect on the outcome of the vote with respect to the Resaca proposals to (i) approve of the Merger and the Share Issuances and the Incentive Plan Amendment, (ii) ratify the Rig Acquisition or (iii) approve the election of directors to the board of Resaca. However, with respect to the proposal to approve the Reverse Stock Split, abstentions will have the same effect as voting "AGAINST" such proposal. Abstentions will have the same effect as voting "AGAINST" each of the Cano proposals.

An abstention occurs when a stockholder abstains from voting (either in person or by proxy) on one or more of the proposals. A withhold vote occurs when a stockholder withholds its vote (either in person or by proxy) with respect to the election of a director or directors.

Recent Developments

Resignation of Patrick M. McKinney

Patrick M. McKinney resigned from his position as Senior Vice President of Engineering and Operations of Cano effective as of May 11, 2010.

Amendment to the Merger Agreement

On May 19, 2010, Resaca, Cano and Merger Sub entered into that certain Amendment No. 4 to the Agreement and Plan of Merger, which we refer to as the Fourth Amendment. The Fourth Amendment revises certain representations and warranties and covenants of Resaca and Cano to account for the fact that a separate proxy statement (rather than a joint proxy statement) will be prepared for each of Resaca's annual meeting of shareholders and Cano's special meeting of its stockholders.

CIT Facility Waiver

On May 14, 2010, Resaca received a waiver from its lenders under its senior credit facility, referred to herein as the CIT Facility, for failing to meet its minimum current ratio test as of March 31, 2010 and for the formation of the Merger Sub. The waiver with respect to the formation of Merger Sub will remain in effect until July 31, 2010. In addition, under the terms of the waiver, if Resaca does not repay or refinance the CIT Facility by June 30, 2010, it will cause all amounts owed to Torch, an affiliate of Resaca and its Chairman of the Board, at such time under the Services Agreement (as defined on page I-68 and as described on page IV-1) to be evidenced by a promissory note payable to Torch, which will be subordinated to the indebtedness Resaca owes under the CIT Facility on terms acceptable to its senior lenders.

Torch Subordination Letter Agreement

Resaca entered into an agreement with Torch on May 14, 2010 which requires that on June 30, 2010, unless the CIT Facility has been repaid in full or refinanced, all amounts that Resaca owes to Torch at such time under the Services Agreement will be evidenced by a written promissory note payable to Torch. As of March 31, 2010, Resaca owes Torch $1,755,647 under the Services Agreement. Interest on such promissory note will accrue at the prime rate announced from time to time by Amegy Bank N.A. plus 2.0%, which is the same rate of interest that Torch may apply to all over due amounts under the terms of the Services Agreement. All principal and accrued interest on the promissory note will be due and payable at maturity on October 1, 2012 (or, if earlier, two business days after the CIT Facility is repaid from the proceeds of an issuance of Resaca equity or 91 days after the CIT Facility is refinanced or repaid with funds from any other sources). Such promissory note will also be subordinated to all amounts that Resaca owes under the CIT Facility.

Report on Combined Company Reserves as of December 31, 2009

On March 24, 2010, Resaca received a reserve report on the combined proved reserves of Resaca and Cano as of December 31, 2009 from Haas Petroleum Engineering Services, Inc., which we refer to as Haas. As of December 31, 2009, the PV-10 value for the combined company is $773.5 million, which is an increase of $109.0 million or 16.4% higher than the PV-10 value computed at June 30, 2009 of $664.5 million. The $109.0 million increase is primarily attributable to higher commodity prices.

These estimates do not include the effect of the SEC's revised oil and gas rules, *"Modernization of Oil and Gas Reporting,"* issued in December 2008, which is effective for annual reports on Forms 10-K for fiscal years ending on or after December 31, 2009. The revised SEC rules include changes to the

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pricing used to estimate reserves, the ability to include nontraditional resources in reserves, the use of new technology for determining reserves and permitted disclosure of probable and possible reserves. The estimated proved reserves, future net revenues and PV-10 presented at December 31, 2009 were determined using SEC rules in effect for fiscal years prior to December 31, 2009, including the use of end of the period prices for oil and natural gas as of December 31, 2009, which were $79.39 per barrel of oil and $5.82 per MMBtu of natural gas instead of an unweighted average 12-month price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period ended December 31, 2009, of $61.18 per Bbl for oil and $3.87 per MMBtu for natural gas under the new SEC rules. Haas estimates that, had the combined company applied unweighted 12-month average pricing at December 31, 2009 under the SEC's revised rules, the combined company's proved reserves would have decreased by 1.7 MMBOE, which is a reduction of 3% as compared to proved reserves of 57.5 MMBOE using December 31, 2009 flat pricing. Haas estimates that utilizing the unweighted 12-month average pricing at December 31, 2009 would have reduced the PV-10 value of the combined company's proven reserves by $404.9 million or 52% as compared to PV-10 value of proved reserves of $773.5 million using December 31, 2009 flat pricing. Beginning June 30, 2010, the combined company will be required to prepare its reserve estimates using the definitions and pricing required by the SEC's revised rules.

Stock Exchange Listing

On March 30, 2010, the combined company was approved for listing on the NYSE Amex upon notice of issuance.

New Bank Facility

On April 26, 2010, we received a firm commitment for a new $200 million revolving senior secured credit facility with UBNA and Natixis. UBNA is the Administrative Agent and UBNA and Natixis are the Issuing Lenders of the New Facility. The New Facility will mature on July 1, 2012 and is expected to have an initial and current borrowing base of $90 million based upon our estimated proved reserves. The New Facility provides for an automatic extension to the third anniversary of the closing date of the New Facility if all shares of Resaca preferred stock convert to shares of Resaca common stock or the stated maturity date or redemption date for the Resaca preferred stock is extended to a date at least 91 days after the third anniversary of the closing date of the New Facility and no default then exists under the New Facility. Advances under the New Facility shall be in the form of either base rate loans or LIBOR loans. The interest rate on base rate loans shall be tied to the "UB Reference Rate" plus a margin of 1.5% to 2.25% based on the percentage of the borrowing base utilized at the time of the credit extension. The interest rate on LIBOR loans shall be LIBOR for a 30, 60, 90, or (if available) 180 day period plus a margin of 2.50% to 3.25% based on the percentage of the borrowing base utilized at the time of the credit extension. See "Chapter III Business & Financial Information of Resaca and Cano Management's Discussion and Analysis of Financial Condition and Results of Operations of Resaca Our New Facility" on page III-54 for a detailed discussion of the New Facility and Exhibit 10.222 hereto for the draft form of credit agreement to be entered into in connection with the New Facility, which we refer to as the New Credit Agreement.

The Offering

Resaca expects to offer between $50 million and $75 million in shares of Resaca common stock in an underwritten public offering (which amount includes the underwriters' 30 day option to purchase additional shares of Resaca common stock to cover overallotments, and which amount may be increased or decreased in the sole discretion of the Resaca board of directors in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder). The actual amount of such offering will depend upon market conditions at the time. Management currently intends to use the net proceeds of the offering to repay between $43 million and $67 million of existing indebtedness for the combined company, depending on the actual size of the offering. The remaining proceeds of the offering will be retained as cash for general corporate purposes, including severance and merger related expenses, although these amounts ultimately depend upon the actual size of the offering, which is impossible to determine at this time.

Cano Property Sale

During January 2010, Cano sold its interests in certain oil and gas properties located in the Texas Panhandle for net proceeds of $6.3 million. The sale had an effective date of January 1, 2010. As of January 1, 2010, the net book value of these sold assets was $3.8 million, based on updated reserve information as of December 31, 2009, which resulted in a pre-tax gain of $2.5 million. Cano used a portion of the net proceeds of $6.3 million to pay down its outstanding debt. As of May 28, 2010, Cano had available borrowing capacity of $1.1 million under its senior credit facility and a cash balance of $0.1 million.

Change in Transfer Agent and Registrar

Effective upon the merger, the Transfer Agent and Registrar for the Resaca common stock and Resaca preferred stock will change from Computershare Investor Services (Jersey) Limited, its Transfer Agent and Registrar prior to the merger, to Computershare Trust Company N.A.

Conversion of Trading Denomination of Resaca Common Stock to U.S. Dollars

On April 1, 2010, in preparation for the merger and the combined company's planned listing on NYSE Amex, the trading denomination of the Resaca common stock changed from British pounds to U.S. dollars.

Contact Information of the Combined Company

Our principal executive offices are located at 1331 Lamar, Suite 1450, Houston, Texas 77010. The telephone number of our principal executive offices is (713) 650-1246. Our web site is *www.resacaexploitation.com*. The information on our web site does not constitute part of this proxy statement.

Organizational Structure

The chart below depicts the organization of the combined company after giving effect to the merger.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF RESACA

The following table sets forth certain of Resaca's consolidated financial data as of and for each of the periods indicated. The financial information as of and for the years ended June 30, 2007, 2008 and 2009 has been derived from Resaca's audited consolidated financial statements. The financial information as of and for the nine month periods ended March 31, 2009 and 2010 has been derived from Resaca's unaudited consolidated financial statements. The financial information as of June 30, 2006 and for the period from inception (March 1, 2006) to June 30, 2006 has been derived from Resaca's unaudited financial statements. This disclosure reflects Resaca's results only and does not include the effect of the merger, the issuance of Resaca common stock and Resaca preferred stock in conjunction with the merger, the Reverse Stock Split or the Rig Acquisition. The selected historical financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations of Resaca" beginning on page III-27 and Resaca's consolidated financial statements and notes thereto beginning on page F-11.

In Thousands, Except Per Share Data	Nine Months Ended March 31, 2010	Nine Months Ended March 31, 2009	Years Ended June 30, 2009	Years Ended June 30, 2008	Years Ended June 30, 2007	Period From Inception (March 1, 2006) To June 30, 2006
	(unaudited)	(unaudited)				(unaudited)
Operating Revenues:						
Total operating revenues	$ 11,051	$ 11,048	$ 14,154	$ 18,559	$ 15,491	$ 2,927
Operating Expenses:						
Lease operating	4,590	5,256	6,623	7,007	7,604	1,337
Production and ad valorem taxes	770	1,009	1,250	1,664	1,367	263
General and administrative	6,246	5,150	7,087	1,962	1,553	41
Depletion and depreciation	2,845	2,493	3,371	2,910	2,832	578
Accretion of discount on asset retirement obligations	130	289	281	341	295	49
Inventory writedown			318			
Total operating expenses	14,581	14,197	18,930	13,884	13,651	2,268
Income (loss) from operations:	(3,530)	(3,149)	(4,776)	4,675	1,840	659
Other income (expense):						
Gain (loss) on derivatives	(770)	15,834	11,468	(12,349)	(901)	(504)
Interest expense and other	(2,442)	(2,537)	(3,981)	(9,829)	(9,348)	(1,542)
Total other income (expense)	(3,212)	13,297	7,487	(22,178)	(10,249)	(2,046)
Income (loss) from continuing operations before income tax benefit	(6,742)	10,148	2,711	(17,503)	(8,409)	(1,387)
Deferred income tax benefit (expense)	(2)	(3,900)				
Net income (loss)	$ (6,744)	$ 6,248	$ 2,711	$ (17,503)	$ (8,409)	$ (1,387)
	$ (0.07)	$ 0.07	$ 0.03	$	$	$

Net income (loss) per share basic and diluted			
Weighted average common shares outstanding			
Basic	96,777	92,259	92,259
Diluted	96,777	92,259	92,280

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	Nine Months Ended March 31,		Years Ended June 30,			Period From Inception (March 1, 2006) To June 30,
	2010	2009	2009	2008	2007	2006
	(unaudited)	(unaudited)				(unaudited)
CASH FLOW DATA:						
Cash flow provided by (used in):						
Operating activities	$ 358	$ (5,084)	$ (3,953)	$ 1,707	$ (2,797)	$ (445)
Investing activities	(3,165)	(19,201)	(20,522)	(4,526)	(13,722)	(85,828)
Financing activities	3,127	25,561	24,617	2,400	16,200	87,200

	As of March 31,		As of June 30,			
	2010	2009	2009	2008	2007	2006
	(unaudited)	(unaudited)				(unaudited)
BALANCE SHEET DATA:						
Cash and cash equivalents	$ 675	$ 1,832	$ 330	$ 188	$ 607	$ 926
Total assets	125,096	124,765	122,000	107,751	103,131	93,191
Long-term debt	35,000	23,444	31,846	72,617	73,660	72,200
Stockholders' equity	77,853	82,218	79,751	(11,923)	5,580	13,740

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF CANO

The following table sets forth certain of Cano's consolidated financial data as of and for each of the periods indicated. The financial information as of and for the years ended June 30, 2005, 2006, 2007, 2008 and 2009 is derived from Cano's audited consolidated financial statements. The financial information as of and for the nine months ended March 31, 2009 and 2010 is derived from Cano's unaudited consolidated financial statements. This disclosure reflects Cano's results only and does not include the effect of the merger, the issuance of Resaca common stock and Resaca preferred stock in conjunction with the merger, the Reverse Stock Split or the Rig Acquisition. The selected historical financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cano" beginning on page III-66 for the year ended June 30, 2009 and nine months ended March 31, 2010 and Cano's consolidated financial statements and notes thereto beginning on page F-59.

In Thousands, Except Per Share Data	Nine Months Ended March 31, 2010 (unaudited)	Nine Months Ended March 31, 2009 (unaudited)	Years Ended June 30, 2009	2008	2007	2006	2005
Operating Revenues:							
Total operating revenues	$ 16,368	$ 18,119	25,409	$ 34,650	$ 20,651	$ 14,371	$ 3,764
Operating Expenses:							
Lease operating	11,785	13,687	18,842	13,273	8,733	5,952	2,069
Production and ad valorem taxes	1,365	1,662	2,352	2,454	1,695	985	223
General and administrative	9,360	16,561	19,156	14,859	12,635	7,623	4,754
Impairment of long-lived assets	283	22,398	26,670				
Exploration expense	5,024		11,379				
Depletion and depreciation	3,627	4,120	5,720	3,903	3,202	1,652	371
Accretion of discount on asset retirement obligations	203	225	305	204	131	89	48
Total operating expenses	31,647	58,653	84,424	34,693	26,396	16,301	7,465
Loss from operations:	(15,279)	(40,534)	(59,015)	(43)	(5,745)	(1,930)	(3,701)
Other income (expense):							
Gain (loss) on derivatives	(4,451)	48,480	43,790	(31,955)	(847)	(2,705)	
Impairment of goodwill		(685)	(685)				
Interest expense and other	(908)	(357)	(513)	(761)	(1,681)	(2,075)	12
Total other income (expense)	(5,359)	47,438	42,592	(32,716)	(2,528)	(4,780)	12
Income (loss) from continuing operations before income tax benefit	(20,638)	6,904	(16,423)	(32,759)	(8,273)	(6,710)	(3,689)
Deferred income tax benefit	6,803	(3,330)	4,712	11,767	2,970	3,990	
Income (loss) from continuing operations	(13,835)	3,574	(11,711)	(20,992)	(5,303)	(2,720)	(3,689)
Income (loss) from discontinued operations, net of related taxes	2,066	12,089	11,480	3,471	4,513	876	716
Preferred stock discount							(417)
Preferred stock dividend	(1,359)	(2,261)	(2,730)	(4,083)	(3,169)		
Preferred stock repurchased for less than carrying amount		10,890	10,890				
Net income (loss) applicable to common stock	$ (13,128)	$ 24,292	$ 7,929	$ (21,604)	$ (3,959)	$ (1,844)	$ (3,390)
Net income (loss) applicable to common stock:							
Continuing operations	(15,194)	12,203	(3,551)	(25,075)	(8,472)	(2,720)	(4,106)
Discontinued operations(a)	2,066	12,089	11,480	3,471	4,513	876	716
Net income (loss) applicable to common stock	$ (13,128)	$ 24,292	$ 7,929	$ (21,604)	$ (3,959)	$ (1,844)	$ (3,390)

Net income (loss) per share basic	$ (0.28)	$ 0.53	$ 0.17	$ (0.60)	$ (0.13)	$ (0.08)	$ (0.29)
Net income (loss) per share diluted	$ (0.28)	$ 0.50	$ 0.17	$ (0.60)	$ (0.13)	$ (0.08)	$ (0.29)
Weighted average common shares outstanding							
Basic	45,570	46,094	45,361	35,829	30,758	22,364	11,839
Diluted	45,570	53,254	45,361	35,829	30,758	22,364	11,839

(a) The discontinued operations for the nine months ended March 31, 2010 and 2009 pertain to the sale of certain wells located in Cano's Panhandle Properties during January 2010. The discontinued operations for the years ended June 30, 2005 through June 30, 2009 pertain to discontinued operations which occurred prior to June 30, 2009.

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	Nine Months Ended March 31,		Years Ended June 30,				
	2010	2009	2009	2008	2007	2006	2005
	(unaudited)	(unaudited)					
CASH FLOW DATA:							
Cash flow provided by (used in):							
Operating activities	$ (1,116)	$ (5,111)	$ (6,609)	$ 17,028	$ 2,658	$ (6,083)	$ (501)
Investing activities	(7,145)	(7,183)	(17,349)	(84,751)	(39,854)	(78,365)	(10,726)
Financing activities	8,726	11,850	23,653	66,301	38,670	84,948	9,797

	As of March 31,		As of June 30,				
	2010	2009	2009	2008	2007	2006	2005
	(unaudited)	(unaudited)					
BALANCE SHEET DATA:							
Cash and cash equivalents	$ 857	$ 327	$ 392	$ 697	$ 2,119	$ 645	$ 145
Total assets	260,348	282,399	264,028	277,734	201,469	146,949	17,578
Long-term debt (includes current portion)	65,000	43,700	55,700	73,500	33,500	68,750	
Temporary equity	26,240	25,127	25,405	45,086	47,596		
Stockholders' equity	136,290	164,117	148,459	83,850	68,861	40,636	15,391

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UNAUDITED PRO FORMA COMBINED FINANCIAL DATA

The following unaudited pro forma combined financial data is designed to show how the merger of Resaca and Cano might have affected historical financial statements if the merger had been completed at an earlier time and was prepared based on the historical financial results reported by Resaca and Cano. The following should be read in connection with (i) the Resaca restated audited consolidated balance sheet as of June 30, 2009 and the Resaca restated audited consolidated statement of operations for the year ended June 30, 2009; (ii) the Resaca unaudited consolidated balance sheet as of March 31, 2010 and the Resaca unaudited consolidated statements of operations for the nine months ended March 31, 2010; (iii) the Cano audited consolidated balance sheet as of June 30, 2009 and the Cano audited consolidated statement of operations for the year ended June 30, 2009; and (iv) the Cano unaudited consolidated balance sheet as of March 31, 2010 and the Cano unaudited consolidated statements of operations for the nine months ended March 31, 2010, all beginning on page F-11 of this proxy statement.

The following unaudited pro forma combined financial statements were prepared to present the effect of the merger to be accounted for as an acquisition of Cano by Resaca using the "purchase" method of accounting. In addition, Resaca will continue to use the full cost method of accounting for oil and gas properties. The unaudited pro forma combined financial statements give effect to the following transactions:

- the Reverse Stock Split;
- the issuance of approximately 19,264,518 shares of Resaca common stock to the stockholders of Cano pursuant to the merger with Cano, which includes approximately 124,321 shares of Resaca common stock issuable on the exercise of certain Cano stock options; and
- the issuance of 28,125 shares of Resaca preferred stock (calculated as of May 28, 2010) to the preferred stockholders of Cano.

The unaudited pro forma combined balance sheet as of March 31, 2010 is based on the unaudited consolidated balance sheet of Resaca and the unaudited consolidated balance sheet of Cano both as of March 31, 2010 included in this proxy statement and gives effect to the transactions listed above as if they had occurred on March 31, 2010 (other than preferred stock outstanding, which is as of May 28, 2010).

The unaudited pro forma combined statement of operations for the year ended June 30, 2009 is based on the restated audited consolidated statement of operations of Resaca and the audited consolidated statement of operations of Cano both for the year ended June 30, 2009 included in this proxy statement and gives effect to the transactions listed above as if they had occurred on July 1, 2008.

The unaudited pro forma combined statement of operations for the nine months ended March 31, 2010 is based on the unaudited consolidated statement of operations of Resaca and the unaudited consolidated statement of operations of Cano both for the nine months ended March 31, 2010 included in this proxy statement and gives effect to the transactions listed above as if they had occurred on July 1, 2008.

The unaudited pro forma combined financial statements presented herein are based upon assumptions and include adjustments as explained in the notes to the unaudited pro forma combined financial statements, and the actual recording of the transactions upon closing of the merger could differ. The unaudited pro forma combined financial information is not necessarily indicative of the results of operations or the financial position that would have occurred if the transactions described above had been consummated on the dates indicated, nor is it necessarily indicative of future results of operations or financial position. However, management believes that the assumptions used provide a reasonable basis for presenting the significant effects of the transactions discussed above and that the pro forma adjustments give appropriate effect to those assumptions.

You should read the unaudited pro forma combined financial data together with the historical financial statements of Resaca and Cano. The unaudited pro forma combined financial statements of Resaca and Cano have been included as required by the rules of the SEC and are provided for comparative purposes only.

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UNAUDITED PRO FORMA
COMBINED BALANCE SHEET
MARCH 31, 2010

In Thousands, Except Shares and Per Share Amounts	Resaca Historical Amounts(a)	Cano Historical Amounts	Adjustments for Merger and Reverse Stock Split	Pro Forma as of March 31, 2010
ASSETS				
Current assets				
Cash and cash equivalents	$ 650	$ 857	$	$ 1,507
Restricted cash	25			25
Accounts receivable	2,191	2,533		4,724
Deferred tax assets	241			241
Derivative assets		3,486		3,486
Inventory and other current assets	1,222	1,231		2,453
Total current assets	4,329	8,107		12,436
Oil and gas properties	130,506	292,942	(97,542)(b)	325,906
Less accumulated depletion and depreciation	(12,000)	(43,434)	43,434 (b)	(12,000)
Net oil and gas properties	118,506	249,508	(54,108)	313,906
Fixed assets and other, net	2,261	2,632		4,893
Deferred tax asset			898 (c)	898
Goodwill		101	(101)(d)	
TOTAL ASSETS	**$ 125,096**	**$ 260,348**	**$ (53,311)**	**$ 332,133**
LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$ 1,409	$ 3,830	$ 105 (n)	$ 5,344
Accrued liabilities	1,595	2,364	2,917 (e)	6,876
Due to affiliates, net	1,756			1,756
Deferred tax liabilities		898		898
Oil and gas sales payable	116	730		846
Derivative liabilities	1,477	227		1,704
Liabilities associated with discontinued operations		105	(105)(n)	
Current portion of long-term debt		65,000		65,000
Current portion of asset retirement obligations		236		236
Total current liabilities	6,353	73,390	2,917	82,660
Long-term liabilities				
Long-term debt	35,000			35,000
Asset retirement obligations	4,070	3,043		7,113
Derivative liabilities	1,579	3,606		5,185
Deferred tax liabilities	241	17,779	(17,779)(c)	241
Total liabilities	47,243	97,818	(14,862)	130,199
Temporary equity				
Series D convertible preferred stock		26,240	1,885 (f)	28,125
Commitments and contingencies				
Stockholders' equity				
Common stock	970	5	(5)(g)	387
			193 (h)	
			(776)(l)	
Additional paid-in capital	93,236	190,485	(190,485)(g)	153,539

			59,527 (h)	
			776 (l)	
Retained earnings (accumulated deficit)	(16,353)	(53,503)	53,503 (g)	19,883
			36,236 (b)	
Treasury stock, at cost		(697)	697 (g)	
Total stockholders' equity	77,853	136,290	(40,334)	173,809
TOTAL LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS' EQUITY	**$ 125,096**	**$ 260,348**	**$ (53,311)**	**$ 332,133**

See Notes to Unaudited Pro Forma Combined Financial Statements.

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UNAUDITED PRO FORMA
COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED MARCH 31, 2010

In Thousands, Except Per Share Data	Resaca Historical Amounts(a)	Cano Historical Amounts	Adjustments for Merger and Reverse Stock Split	Pro Forma Nine Months Ended March 31, 2010
Operating Revenues:				
Crude oil sales	$ 10,086	$ 14,045	$ 35 (n)	$ 24,166
Natural gas sales	1,199	2,323	972 (n)	4,494
Total operating revenues	11,285	16,368	1,007	28,660
Operating Expenses:				
Lease operating	4,590	11,785	178 (n)	16,553
Production and ad valorem taxes	770	1,365	118 (n)	2,253
General and administrative	6,246	9,360		15,606
Impairment of long-lived assets		283		283
Exploration expense		5,024	(5,024)(j)	
Depletion and depreciation	2,845	3,627	(730)(i)	5,742
Accretion of discount on asset retirement obligations	130	203	2 (n)	335
Total operating expenses	14,581	31,647	(5,456)	40,772
Loss from operations	(3,296)	(15,279)	6,463	(12,112)
Other expense:				
Interest expense and other	(2,442)	(908)	(43)(n)	(3,393)
Loss on derivatives	(1,004)	(4,451)		(5,455)
Total other expense	(3,446)	(5,359)	(43)	(8,848)
Loss from continuing operations before income taxes	(6,742)	(20,638)	6,420	(20,960)
Deferred income tax benefit (expense)	(2)	6,803	(2,376)(k)(n)	4,425
Loss from continuing operations	(6,744)	(13,835)	4,044	(16,535)
Income from discontinued operations, net of related taxes		2,066	(2,066)(n)	
Net loss	(6,744)	(11,769)	1,978	(16,535)
Preferred stock dividend		(1,359)		(1,359)
Net loss applicable to common stock	$ (6,744)	$ (13,128)	$ 1,978	$ (17,894)
Net loss per share				
Basic and diluted	$ (0.07)	$ (0.28)		$ (0.46)
Weighted average common shares outstanding				
Basic and diluted	96,777	45,570	(45,570)(g)	38,934
			19,265 (h)	
			314 (e)	

(77,422)(m)

See Notes to Unaudited Pro Forma Combined Financial Statements.

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UNAUDITED PRO FORMA
COMBINED STATEMENT OF OPERATIONS
For the Year Ended June 30, 2009

In Thousands, Except Per Share Data	Resaca Historical Amounts(a)	Cano Historical Amounts	Adjustments for Merger and Reverse Stock Split		Pro Forma Year Ended June 30, 2009
Operating Revenues:					
Crude oil sales	$ 12,688	$ 19,222	$ 1,321	(n)	$ 33,231
Natural gas sales	1,879	5,875	1,757	(n)	9,511
Other revenue		312			312
Total operating revenues	14,567	25,409	3,078		43,054
Operating Expenses:					
Lease operating	6,623	18,842	638	(n)	26,103
Production and ad valorem taxes	1,250	2,352	197	(n)	3,799
General and administrative	7,087	19,156			26,243
Impairment of long-lived assets		26,670	(30,186)	(j)	
			3,516	(n)	
Exploration expense		11,379	(11,379)	(j)	
Depletion and depreciation	3,371	5,720	(891)	(i)	8,200
Accretion of discount on asset retirement obligations	281	305	3	(n)	589
Inventory writedown	318				318
Total operating expenses	18,930	84,424	(38,102)		65,252
Loss from operations	(4,363)	(59,015)	41,180		(22,198)
Other income (expense):					
Interest expense and other	(3,981)	(513)	(34)	(n)	(4,528)
Impairment of goodwill		(685)	685	(j)	
Gain on derivatives	11,055	43,790			54,845
Total other income (expense)	7,074	42,592	651		50,317
Income (loss) from continuing operations before income taxes	2,711	(16,423)	41,831		28,119
Deferred income tax benefit		4,712	(15,236)	(k)	(10,524)
Income (loss) from continuing operations	2,711	(11,711)	26,595		17,595
Income from discontinued operations, net of related taxes		11,480	(11,480)	(n)	
Preferred stock dividend		(2,730)			(2,730)
Preferred stock repurchased for less than carrying amount		10,890			10,890
Net income (loss) applicable to common stock	$ 2,711	$ 7,929	$ 15,115		$ 25,755
Net income (loss) per share					
Basic and diluted	$ 0.03	$ 0.17			$ 0.68
Weighted average common shares outstanding					

Basic	92,259	45,361	(45,361)(g)	37,995
			19,265 (h)	
			278 (e)	
			(73,807)(m)	
Diluted	92,280	45,361	(45,361)(g)	37,999
			19,265 (h)	
			278 (e)	
			(73,824)(m)	

See Notes to Unaudited Pro Forma Combined Financial Statements.

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NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

(a)

The amounts presented in the Resaca historical balance sheet and statement of operations have been reclassified for consistency with the presentation of the Cano historical amounts. Such presentation will be adopted by the combined company post merger.

(b)

The following table summarizes the consideration paid for Cano by Resaca, and the allocation to the assets acquired and liabilities assumed and recognized at the acquisition date.

Consideration		
Equity instruments (19,264,518) shares of Resaca common stock per note (h)	$	59,720
Recognized amounts of identifiable assets acquired and liabilities assumed		
Current assets	$	8,107
Oil and gas properties		195,400
Other assets		3,530
Current liabilities (including current portion of long-term debt)		(76,307)
Long-term liabilities		(6,649)
Preferred stock		(28,125)
Total identifiable net assets		95,956
Gain on bargain purchase per note (h)	$	36,236

Under purchase accounting, an acquiring company is required to measure and account for assets acquired, liabilities assumed or incurred, and equity instruments issued in a business combination in accordance with fair value measurements as set forth in ASC 820. The actual purchase price will ultimately be based on the Resaca common share price at the transaction closing date and the allocation of such purchase price is provisional in nature and subject to a fair market valuation of Cano's oil and gas properties on the closing date. We believe the fair value of current assets, other assets, current liabilities and long-term liabilities approximates their respective carrying values. The preferred stock fair value was adjusted to its liquidation value. As of March 31, 2010, the carrying value of Cano's oil and gas properties reflects Cano's historical cost of its oil and gas properties accounted for under the successful efforts method of accounting after the evaluation of impairment based on its estimate of undiscounted cash flows. Under the successful efforts method of accounting, impairment is evaluated if conditions indicate that the carrying value of oil and gas properties may not be recoverable from management's future estimated undiscounted pre-tax cash flow from its oil and gas properties, on a property-by-property basis. At March 31, 2010, Cano determined that no impairment of its oil and gas properties was required. Transaction prices are almost always different than the carrying amounts of assets, or even the cost of initially acquiring and developing a property as prices and costs fluctuate over time. The fair value of Cano's oil and gas properties included in these unaudited pro forma combined financial statements represents the transactional value that an acquirer would pay for the assets, but does not reflect the undiscounted cash flows we expect to recover, which at March 31, 2010 and June 30, 2009, were in excess of the related carrying amounts.

The provisional fair value of Cano's oil and gas properties is $195.4 million. We analyzed the fair value of Cano's oil and gas properties by reviewing several valuation methods, including valuations based on current production, valuations based on total proved reserves, and risked net asset value ("NAV") using current market risk factors for oil and gas property acquisitions. The $195.4 million value was based on the risked NAV analysis utilizing the December 31, 2009 Haas report on

Cano's reserves. We believe the risked NAV analysis is the most appropriate method of valuing Cano's oil and gas properties. Based on the risked NAV analysis, Cano's oil and gas properties will be valued based on the risked value assigned to its reserves. A significant portion of Cano's reserves (approximately 79%) are classified as PUD reserves. The development of PUD reserves, such as implementing waterfloods, requires a large capital outlay and a long lead-time to generate future production. Under current market conditions for oil and gas property acquisitions, significant discounts are applied by acquirers to such PUD reserves. The $54.1 million pro forma reduction applied to Cano's oil and gas properties, as carried under the successful efforts method of accounting, is largely due to the current acquisition market convention of discounting values associated with acquired PUD reserves.

(c) To adjust Cano's historic deferred tax liabilities based primarily on adjustments to the carrying amount of Cano's oil and gas properties as discussed in note (b), and the establishment of a valuation allowance on Cano's NOL carryforwards. We established the valuation allowance on NOL carryforwards based on our estimation of the combined entity's demonstrated ability to utilize such carryforwards to offset future taxable income. The adjustment results in net deferred tax liability of zero attributable to Cano, reflected as a non-current asset of $0.9 million and a current liability of $0.9 million.

(d) To eliminate Cano's historical goodwill.

(e) To record severance liabilities for Cano's change of control provisions for two Cano executives to be terminated at the merger closing in 2010. The pro forma adjustment of $2.9 million consists of anticipated cash payments of $1.9 million and the issuance of $1.0 million in common stock. The actual number of shares to be issued will be determined based on Resaca's share price at the transaction closing date. For purposes of pro forma earnings per share, we have computed the number of shares to be issued based on the Resaca stock price of $0.62 per share on May 28, 2010, resulting in the issuance of approximately 0.3 million shares (after consideration of the Reverse Stock Split) pursuant to the change of control provisions.

(f) To increase the carrying value of the preferred stock to its face value to reflect the current market value of the preferred stock, after giving effect to the amendment to the preferred stock certificate of designation contemplated in the merger agreement.

(g) To eliminate Cano's historical equity balances and weighted average common shares outstanding.

(h) To record the issuance of 19,264,518 shares of Resaca common stock, which includes approximately 124,321 shares of Resaca common stock issuable on the exercise of certain Cano stock options, based on Resaca's stock price of $3.10 per share as of May 28, 2010. Both the issuance of common shares and the transaction price were adjusted for the Reverse Stock Split. The stock issuance is valued at $59.7 million, of which $0.2 million is recorded as common stock (par value of $0.01 per share) and $59.5 million is recorded as additional paid-in capital.

Resaca common stock is not frequently traded. The average volume of shares traded between April 1, 2010 and May 27, 2010 was 25,000 per day as measured against 96.9 million shares outstanding. As a byproduct of infrequent trading activity, small trade volumes have often led to large changes in Resaca's stock price. The recent Resaca stock price of $0.62 on May 28, 2010 (converted to 42.8 pence based on a foreign exchange rate of 1.4482 on May 28, 2010) represents a 30% reduction as compared to the Resaca stock price of 61.5 pence on September 30, 2009 (day after the merger agreement was approved and announced by both Resaca and Cano). Continued fluctuations in Resaca's stock price will affect the valuation of Resaca's ultimate consideration for Cano common shares. Based on the $0.62 stock price, the consideration would be currently valued at $59.7 million and reflect a bargain purchase gain of $36.2 million. Based on the 61.5 pence stock price, the value of the consideration would be $96.4 million (using a foreign currency

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exchange rate of U.S. $1.6277 per British Pound as of September 30, 2009) and would reflect goodwill of $0.5 million.

The actual valuation of the Resaca common stock to be issued and the valuation of the net assets of Cano will be estimated based on facts and circumstances in existence at the transaction closing date. The final amounts assigned to Cano's net assets acquired and the value of the Resaca common shares issued to Cano's shareholders could differ from the amounts included in these unaudited pro forma combined financial statements. The largest component of Cano's net assets are its' oil and gas properties, which will be valued at the closing date based on the value assigned to its reserves. Significant assumptions are required in the valuation of proved crude oil and natural gas reserves. For example, changes in market prices for crude oil and natural gas and market demand for oil and gas properties could affect the valuation of proved reserves, which could affect the fair value assigned to Cano's oil and gas properties. A hypothetical increase or decrease of 10% in Resaca's stock price would result in an increase or decrease in the value of Resaca common stock to be issued of approximately $6.0 million.

(i)

As a result of the merger, Cano will adopt the full cost method of accounting for oil and gas properties to conform with the method employed by Resaca. Based on the depletion calculation for the combined entity, depletion expense for the year ended June 30, 2009 and the nine months ended March 31, 2010 would be reduced by $0.9 million and $0.7 million, respectively.

(j)

Based on the combined entity ceiling test and purchase accounting entry discussed in note (b), Cano would not have recognized impairment of long-lived assets of $30.2 million, exploration expense of $11.4 million and impairment of goodwill of $0.7 million during the year ended June 30, 2009 and exploration expenses of $5.0 million for the nine months ended March 31, 2010. Therefore, the pro forma adjustments include the reversal of these expense amounts during the year ended June 30, 2009 and the nine months ended March 31, 2010.

(k)

The income tax effect of the expense reductions as discussed in notes (i) and (j), excluding the impairment of goodwill, for the year ended June 30, 2009 and the nine months ended March 31, 2010 is $15.2 million and $2.4 million, respectively. The effective income tax rate used is 37%, based on Resaca's combined federal and state statutory rates. The impairment of goodwill is excluded since it is a permanent difference between book and taxable income.

(l)

To record the effect of the Reverse Stock Split. As of March 31, 2010, Resaca had 96,947,494 shares of its $0.01 par value common shares outstanding. If the Reverse Stock Split had occurred on March 31, 2010, Resaca would have had 19,389,499 shares outstanding, resulting in par value of approximately $193,000. The adjustment represents the difference between Resaca's historical par value of $969,000 and the pro forma par value reflecting the Reverse Stock Split of $193,000.

(m)

To adjust weighted average historical shares outstanding for the Reverse Stock Split, as if such split occurred on July 1, 2008, by dividing Resaca's historical amounts by five.

(n)

Since the combined company will apply the full cost method of accounting, income from discontinued operations is not presented unless substantially all properties in a cost center are disposed. Accordingly, this adjustment reclassifies income from discontinued operations to the respective income statement captions of operating revenues, lease operating expenses, production and ad valorem taxes, depletion and depreciation, accretion of discount on asset retirement obligations and interest expense and other. In addition, the gain on disposition (net of related income taxes) of $12.3 million and $1.6 million for the year ended June 30, 2009 and for the nine months ended March 31, 2010, respectively, is being eliminated as no gain would be recorded under full cost accounting since the credit of proceeds against oil and gas properties would have not materially impacted the amortization rate. Also, the liabilities associated with discontinued operations were reclassified to accounts payable.

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PRO FORMA COMBINED SUPPLEMENTARY FINANCIAL INFORMATION FOR OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

The following tables present certain unaudited pro forma combined information concerning Resaca's and Cano's proved oil and gas reserves at June 30, 2008 and June 30, 2009 and certain pro forma combined information giving effect to the merger as if it had occurred on July 1, 2008. There are numerous uncertainties inherent in estimating the quantities of proved reserves and projecting future rates of production and timing of development expenditures. The following reserve data represent estimates only and reflects prices and costs at June 30, 2008 and June 30, 2009, and should not be construed as being exact.

	Resaca Historical Amounts	Cano Historical Amounts	Pro Forma Amounts
Reserves Crude Oil (MBbls)			
Reserves at June 30, 2008	14,732	39,116	53,848
Extensions and discoveries		2,544	2,544
Sale of minerals in place		(1,240)	(1,240)
Purchases	221		221
Revisions of prior estimates	(2,796)	(1,338)	(4,134)
Production	(189)	(311)	(500)
Reserves at June 30, 2009	11,968	38,771	50,739
Proved developed reserves at June 30, 2009	6,722	7,027	13,749

	Resaca Historical Amounts	Cano Historical Amounts	Pro Forma Amounts
Reserves Natural Gas (MMCF)			
Reserves at June 30, 2008	18,941	84,439	103,380
Extensions and discoveries		472	472
Sale of minerals in place		(7,886)	(7,886)
Purchases	284		284
Revisions of prior estimates	(5,639)	(14,191)	(19,830)
Production	(287)	(881)	(1,168)
Reserves at June 30, 2009	13,299	61,953	75,252
Proved developed reserves at June 30, 2009	7,502	18,322	25,824

	Resaca Historical Amounts	Cano Historical Amounts	Pro Forma Amounts
Standardized Measure of Discounted Cash Flows: ($000s)			
Future cash inflows	$ 861,424	$ 2,751,854	$ 3,613,278
Future production costs	(240,966)	(767,743)	(1,008,709)
Future development costs	(97,151)	(332,677)	(429,828)
Future income taxes	(154,507)	(535,300)	(689,807)
Future net cash flows	368,800	1,116,134	1,484,934
10% annual discount	(232,638)	(834,122)	(1,066,760)
Standardized measure of discounted future net cash flows at June 30, 2009	$ 136,162	$ 282,012	$ 418,174

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	Resaca Historical Amounts	Cano Historical Amounts	Pro Forma Amounts
Changes in Standardized Measure of Discounted Future Cash Flows: ($000s)			
Balance at June 30, 2008	$ 445,776	$ 1,412,543	$ 1,858,319
Net changes in prices and production costs	(422,943)	(1,598,659)	(2,021,602)
Net changes in future development costs	1,582	(36,746)	(35,164)
Sales of oil and gas produced, net	(7,531)	(6,552)	(14,083)
Purchases of reserves	9,746		9,746
Sales of reserves		(94,357)	(94,357)
Extensions and discoveries		38,256	38,256
Revisions of previous quantity estimates	(65,786)	(54,017)	(119,803)
Previously estimated development costs incurred	5,954	47,590	53,544
Net change in income taxes	168,297	349,339	517,636
Accretion of discount	67,887	224,235	292,122
Other	(66,820)	380	(66,440)
Balance at June 30, 2009	$ 136,162	$ 282,012	$ 418,174

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SUMMARY OIL AND GAS DATA

Operating Data

The following table presents certain information with respect to Resaca's historical operating data for the years ended June 30, 2007, 2008 and 2009 and for the nine months ended March 31, 2010 and pro forma combined operating data for the year ended June 30, 2009 and the nine months ended March 31, 2010, after giving effect to the merger.

	Resaca Historical				Pro Forma Combined	
	Years Ended June 30,			Nine Months Ended March 31,	Year Ended June 30,	Nine Months March 31,
	2007	2008	2009	2010	2009	2010
Wells drilled (net)						
Exploratory					4.00	
Development	6.52		4.62		18.62	1
Net sales data						
Net volume (MBOE)	277	256	237	174	702	457
Average daily volume (BOEPD)	760	700	650	636	1,924	1,673
Average sales price (per BOE)						
Excludes the effect of commodity derivatives	$ 54.31	$ 85.03	$ 61.45	$ 64.99	$ 60.85	$ 62.76
Includes the effect of commodity derivatives	$ 55.84	$ 72.62	$ 59.70	$ 63.64	$ 69.80	$ 70.57
Expenses (per BOE)						
Lease operating	$ 27.41	$ 27.42	$ 27.94	$ 26.43	$ 37.16	$ 36.25
Production and ad valorem taxes	$ 4.93	$ 6.51	$ 5.27	$ 4.43	$ 5.41	$ 4.93

Estimated Reserve Data

The estimates in the table below of proved reserves as of June 30, 2009 are based on reserve reports prepared by Resaca's and Cano's independent petroleum engineers. You should refer to "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations of Resaca," and "Business and Properties" in evaluating the material presented below.

	June 30, 2009		Pro Forma Combined June 30, 2009(1)
	Resaca	Cano	
Estimated proved reserves(2)			
Oil (MBbls)	11,968	38,771	50,739
Gas (MMcf)	13,299	61,953	75,252
Total proved reserves (MBOE)	14,184	49,097	63,281
Proved developed producing reserves:			
Oil (MBbls)	1,911	5,752	7,663
Gas (MMcf)	2,552	11,904	14,456
Total proved developed producing reserves (MBOE)	2,336	7,735	10,071
Proved developed reserves:			
Oil (MBbls)	6,722	7,027	13,749
Gas (MMcf)	7,502	18,322	25,824
Total proved developed reserves (MBOE)	7,973	10,081	18,054
PV-10 value (millions)(2)(3)			
Proved developed producing reserves	$ 29.5	$ 63.5	$ 93.0
Proved developed non-producing reserves	93.0	15.0	108.0
Proved undeveloped reserves	70.7	392.8	463.5
Total PV-10 value	$ 193.2	$ 471.3	$ 664.5
	$ 136.2	$ 282.0	$ 418.2

Standardized measure of oil and gas quantities (millions)(2)

(1) Gives effect to the merger with Cano.

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(2)

Resaca's estimated proved reserves and the future net revenues, PV-10, and standardized measure of discounted future net cash flows were determined using end of the period prices for natural gas and oil that Resaca realized as of June 30, 2009, which were $69.89 per barrel of oil and $3.84 per MMBtu of natural gas. Cano's estimated proved reserves and the future net revenues, PV-10, and standardized measure of discounted future net cash flows were determined using end of the period prices for natural gas and oil that Cano realized as of June 30, 2009, which were $69.89 per barrel of oil and $3.71 per MMBtu of natural gas.

(3)

PV-10 is a non-GAAP financial measure and generally differs from the standardized measure of discounted future net cash flows, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes on future net revenues. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Resaca The Combined Company" for our definition of PV-10 and a reconciliation of PV-10 to the standardized measure of discounted future net cash flows.

The following table shows Resaca's, Cano's and the combined company's reconciliation of PV-10 to standardized measure of discounted future net cash flows (the most directly comparable measure calculated and presented in accordance with GAAP) at June 30, 2009. PV-10 is our estimate of the present value of future net revenues from estimated proved oil and gas reserves after deducting estimated production and ad valorem taxes, future capital costs and operating expenses, but before deducting any estimates of future income taxes. The estimated future net revenues are discounted at an annual rate of 10% to determine their "present value." We believe PV-10 to be an important measure for evaluating the relative significance of our gas and oil properties and that the presentation of the non-GAAP financial measure of PV-10 provides useful information to investors because it is widely used by professional analysts and sophisticated investors in evaluating gas and oil companies. Because there are many unique factors that can impact an individual company when estimating the amount of future income taxes to be paid, we believe the use of a pre-tax measure is valuable for evaluating its company. We believe that most other companies in the oil and gas industry calculate PV-10 on the same basis.

PV-10 should not be considered as an alternative to the standardized measure of discounted future net cash flows as computed under GAAP.

In millions	June 30, 2009 Resaca	June 30, 2009 Cano	Pro Forma June 30, 2009
PV-10 value	$ 193.2	$ 471.3	$ 664.5
Less: Undiscounted income taxes	(154.5)	(535.3)	(689.8)
Plus: 10% discount factor	97.5	346.0	443.5
Discounted income taxes	(57.0)	(189.3)	(246.3)
Standard measure of discounted future net cash flows	$ 136.2	$ 282.0	$ 418.2

As discussed on pages I-56 and I-57, the consummation of the transactions contemplated by the merger agreement is conditioned upon several items, one of which is Resaca's application for readmission to the AIM. In order to be readmitted to the AIM, Resaca is required to prepare an admission document according to AIM rules prior to the merger, which we refer to as the Readmission Document. The AIM rules require that Resaca include a reserve report for the combined proved, probable, and possible reserves of Resaca and Cano on an after-tax basis in the Readmission Document. To satisfy this requirement, Resaca engaged Haas, as its independent petroleum engineers, to prepare a report on the combined proved, probable, and possible crude oil and natural gas reserves for Resaca and Cano related to primary and secondary recovery. Haas has historically prepared the proved reserve reports for Resaca. Cano's proved reserve report dated June 30, 2009 was prepared by Miller and Lents, Ltd. Upon completion of the merger, Haas will prepare the combined company's future reserve reports related to primary and secondary recovery. In addition, Resaca engaged Williamson Petroleum Consultants, Inc., as its independent petroleum engineers to prepare a report on

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the combined probable and possible crude oil and natural gas reserves for Resaca and Cano related to tertiary recovery. Only the estimate of the combined company's proved reserves as prepared by Haas is included herein.

The estimates presented in the table below of proved reserves as of December 31, 2009 are based on reserve reports prepared by Haas. These estimates do not include the effect of the SEC's revised oil and gas rules, *"Modernization of Oil and Gas Reporting,"* issued in December 2008, which is effective for annual reports on Forms 10-K for years ending on or after December 31, 2009. The revised SEC rules include changes to the pricing used to estimate reserves, the ability to include nontraditional resources in reserves, the use of new technology for determining reserves and permitted disclosure of probable and possible reserves. The estimated proved reserves, future net revenues and PV-10 presented in the table below were determined using SEC rules in effect for fiscal years prior to December 31, 2009 including the use of end of the period prices for oil and natural gas as of December 31, 2009, which were $79.39 per barrel of oil and $5.82 per MMBtu of natural gas, instead of an unweighted average 12-month price calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period ended December 31, 2009, of $61.18 per Bbl for oil and $3.87 per MMBtu for natural gas under the revised SEC rules. The combined company will begin complying with the disclosure requirements of the final rule in its annual report on Form 10-K for the year ending June 30, 2010. You should refer to "Risk Factors," "Business and Properties," "Management's Discussion and Analysis of Financial Condition and Results of Operations of Resaca," and "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cano" on pages I-54, III-1, III-27 and III-66, respectively, in evaluating the material presented below.

	December 31, 2009		Pro Forma Combined December 31, 2009(1)
	Resaca	Cano	
Estimated proved reserves(2)			
Oil (MBbls)	12,262	33,098	45,360
Gas (MMcf)	13,103	59,545	72,648
Total proved reserves (MBOE)	14,446	43,022	57,468
Proved developed producing reserves:			
Oil (MBbls)	2,144	4,605	6,749
Gas (MMcf)	2,492	9,839	12,331
Total proved developed producing reserves (MBOE)	2,559	6,245	8,804
Proved developed reserves:			
Oil (MBbls)	6,911	6,104	13,015
Gas (MMcf)	7,273	16,180	23,453
Total proved developed reserves (MBOE)	8,124	8,800	16,924
PV-10 value (millions)(2)(3)			
Proved developed producing reserves	$ 42.4	$ 69.3	$ 111.7
Proved developed non-producing reserves	117.4	30.4	147.8
Proved undeveloped reserves	100.3	413.7	514.0
Total PV-10 value	$ 260.1	$ 513.4	$ 773.5
Standardized measure of oil and gas quantities (millions)(2)	$ 179.7	$ 332.4	$ 512.1

(1) Gives effect to the merger with Cano.

(2) Resaca's and Cano's estimated proved reserves and the future net revenues, PV-10, and standardized measure of discounted future net cash flows were determined using end of the period

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prices for natural gas and oil that each company realized as of December 31, 2009, which were $79.39 per barrel of oil $5.82 per MMBtu of natural gas.

(3)

PV-10 is a non-GAAP financial measure and generally differs from the standardized measure of discounted future net cash flows, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes on future net revenues.

The following table shows Resaca's, Cano's and the combined company's reconciliation of PV-10 to standardized measure of discounted future net cash flows (the most directly comparable measure calculated and presented in accordance with GAAP) at December 31, 2009. PV-10 is our estimate of the present value of future net revenues from estimated proved oil and gas reserves after deducting estimated production and ad valorem taxes, future capital costs and operating expenses, but before deducting any estimates of future income taxes. The estimated future net revenues are discounted at an annual rate of 10% to determine their "present value." We believe PV-10 to be an important measure for evaluating the relative significance of our gas and oil properties and that the presentation of the non-GAAP financial measure of PV-10 provides useful information to investors because it is widely used by professional analysts and sophisticated investors in evaluating gas and oil companies. Because there are many unique factors that can impact an individual company when estimating the amount of future income taxes to be paid, we believe the use of a pre-tax measure is valuable for evaluating its company. We believe that most other companies in the oil and gas industry calculate PV-10 on the same basis.

PV-10 should not be considered as an alternative to the standardized measure of discounted future net cash flows as computed under GAAP.

	December 31, 2009		Pro Forma
In millions	**Resaca**	**Cano**	**December 31, 2009**
PV-10 value	$ 260.1	$ 513.4	$ 773.5
Less: Undiscounted income taxes	(201.7)	(582.6)	(784.3)
Plus: 10% discount factor	121.3	401.6	522.9
Discounted income taxes	(80.4)	(181.0)	(261.4)
Standard measure of discounted future net cash flows	$ 179.7	$ 332.4	$ 512.1

As of December 31, 2009, the PV-10 value for the combined company is $773.5 million, which is an increase of $109.0 million or 16.4% higher than the PV-10 value computed at June 30, 2009 of $664.5 million. The $109.0 million increase is primarily attributed to higher commodity prices. At December 31, 2009, flat case crude oil and natural gas prices were $79.39 per barrel and $5.82 per MMBtu, respectively, as compared to corresponding crude oil and natural gas prices at June 30, 2009 of $69.89 per barrel and $3.71 per MMBtu.

As of December 31, 2009, proved reserves were 57.5 MMBOE, which is a reduction of 7.9%, after considering the Cano property sale of 0.5 MMBOE and production for the six months ended December 31, 2009 of 0.3 MMBOE, as compared to proved reserves on June 30, 2009 of 63.3 MMBOE. The majority of the reduction was due to reclassifying 4.4 MMBOE of proved undeveloped reserves associated with the Panhandle Properties at June 30, 2009 to probable reserves as of December 31, 2009.

As previously discussed, the combined company will adopt the SEC's revised rules on reserve determination for its annual report on Form 10-K for the year ending June 30, 2010. Haas estimates that, had the combined company applied unweighted 12-month average prices, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period ended December 31, 2009, pricing at December 31, 2009 under the SEC's revised rules, the combined company's proved reserves would have decreased by 1.7 MMBOE, which is a reduction of 3% as compared to proved reserves of 57.5 MMBOE using December 31, 2009 flat pricing. Haas estimates that utilizing the unweighted 12-month average pricing at December 31, 2009 would have reduced the PV-10 value of the combined company's proved reserves by $404.9 million or 52% as compared to PV-10 value of proved reserves of $773.5 million using December 31, 2009 flat pricing. Beginning June 30, 2010, the combined company will be required to prepare its reserves estimates using the definitions and pricing required by the SEC's revised rules.

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COMPARATIVE PER SHARE DATA (UNAUDITED)

The following tables set forth historical per share information of Resaca and Cano and unaudited pro forma combined per share information after giving effect to the merger and the Rig Acquisition, but without giving effect to the Reverse Stock Split. The historical per share information of Resaca for the nine months ended March 31, 2010 includes the effect of the Rig Acquisition. Neither company has ever declared dividends on their respective common stock since their formation. Resaca common stock began trading on the AIM on July 17, 2008 so historical per share information for Resaca is unavailable for years ended prior to June 30, 2009. The terms of the Cano preferred stock require Cano to pay quarterly dividends to the holders thereof. See " Comparative Per Share Market Price and Dividend Information Dividends and Other Distributions" on page I-51.

The unaudited pro forma combined per share information does not purport to represent what the results of operations or financial position of Resaca, Cano or the combined company would actually have been had the merger occurred at the beginning of the period shown, or to project Resaca's, Cano's or the combined company's results of operations or financial position for any future period or date. This pro forma combined information is derived from, and should be read in conjunction with, the unaudited pro forma combined financial statements and accompanying notes included in this proxy statement as presented under " Unaudited Pro Forma Combined Financial Data" beginning on page I-34.

The historical per share information is derived from, and should be read in conjunction with, the financial statements for each of Resaca and Cano, which are included in this proxy statement. See "Business & Financial Information of Resaca and Cano" beginning on page III-1.

	Nine Months Ended March 31, 2010	Year Ended June 30, 2009
Resaca Historical Per Share Data:		
Income from continuing operations:		
Basic(a)	$ (0.07)	$ 0.03
Diluted(a)	$ (0.07)	$ 0.03
Book Value Per Share Diluted(b)	$ 0.80	$ 0.86
Cano Historical Per Share Data:		
Income from continuing operations		
Basic(a)	$ (0.28)	$ (0.17)
Diluted(a)	$ (0.28)	$ (0.17)
Book Value Per Share Diluted(c)	$ 2.99	$ 3.27
Pro Forma Resaca Per Share Data:		
Income from continuing operations		
Basic(a)	$ (0.46)	$ 0.68
Diluted(a)	$ (0.46)	$ 0.68
Book Value Per Share Diluted(d)	$ 4.46	$ 4.12
Pro Forma Cano Equivalent Per Share Data:		
Income from continuing operations		
Basic(e)	$ (0.19)	$ 0.28
Diluted(e)	$ (0.19)	$ 0.28
Book Value Per Share Diluted(e)	$ 1.87	$ 1.73

(a) These amounts are presented on the Unaudited Pro Forma Combined Statement of Operations. See "Unaudited Pro Forma Combined Financial Data" beginning on page I-34.

(b)

For the nine months ended March 31, 2010, the amount was computed based on Resaca's historical book value of $77.9 million divided by weighted average diluted common shares of

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96.8 million. For the year ended June 30, 2009, the amount was computed based on Resaca's historical book value of $79.8 million divided by weighted average diluted common shares of 92.3 million.

(c) For the nine months ended March 31, 2010, the amount was computed based on Cano's historical book value of $136.3 million divided by weighted average diluted common shares of 45.6 million. For the year ended June 30, 2009, the amount was computed based on Cano's historical book value of $148.5 million divided by weighted average diluted common shares of 45.4 million.

(d) For the nine months ended March 31, 2010, the amount was computed based on the Resaca pro forma book value of $173.8 million divided by weighted average diluted common shares of 38.9 million. For the year ended June 30, 2009, the amount was computed based on the Resaca pro forma book value of $156.6 million divided by weighted average diluted common shares of 38.0 million.

(e) Pro forma combined Cano equivalent per share data is calculated by multiplying the pro forma Resaca per share data by the stock exchange ratio of 0.42.

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COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION

Historical Stock Prices

Resaca common stock is listed on the AIM under the symbols "RSX" and "RSOX." Cano common stock is listed on the NYSE Amex under the symbol "CFW." The following table sets forth, for the calendar quarters indicated, the high and low sales prices per share of Resaca common stock and Cano common stock on the AIM and NYSE Amex, respectively. Resaca common stock began trading on the AIM on July 17, 2008 so historical per share sales prices for Resaca are unavailable for the years ended June 30, 2007 and 2008.

	Reverse Stock Split Adjusted Resaca Common Stock(1)(2)		Resaca Common Stock(1)		Cano Common Stock	
	High	Low	High	Low	High	Low
Fiscal Year Ended June 30, 2010						
First Quarter	$ 4.90	$ 2.20	$ 0.98	$ 0.44	$ 1.37	$ 0.52
Second Quarter	$ 4.50	$ 2.90	$ 0.90	$ 0.58	$ 1.31	$ 0.79
Third Quarter	$ 3.50	$ 2.60	$ 0.70	$ 0.52	$ 1.22	$ 0.76
Fiscal Year Ended June 30, 2009						
First Quarter	$ 13.40	$ 10.70	$ 2.68	$ 2.14	$ 8.03	$ 2.01
Second Quarter	$ 10.95	$ 0.95	$ 2.19	$ 0.19	$ 2.34	$ 0.22
Third Quarter	$ 2.10	$ 1.40	$ 0.42	$ 0.28	$ 0.75	$ 0.24
Fourth Quarter	$ 2.15	$ 1.30	$ 0.43	$ 0.26	$ 1.55	$ 0.40
Fiscal Year Ended June 30, 2008						
First Quarter					$ 7.42	$ 5.05
Second Quarter					$ 8.85	$ 5.94
Third Quarter					$ 7.50	$ 3.85
Fourth Quarter					$ 9.40	$ 4.29
Fiscal Year Ended June 30, 2007						
First Quarter					$ 6.40	$ 3.69
Second Quarter					$ 5.80	$ 3.90
Third Quarter					$ 5.47	$ 4.15
Fourth Quarter					$ 6.46	$ 4.40

(1) Prior to April 1, 2010, Resaca common stock was traded on the AIM in British pounds. The dollar amounts reflected herein have been converted to U.S. dollars at applicable exchange rates for the periods presented.

(2) Historical prices are adjusted for the Reverse Stock Split.

On September 28, 2009, the second to last full trading day before the public announcement of the merger, the closing price per share of Resaca common stock on the AIM was U.K. £0.50, which, after applying an assumed exchange rate of U.S. $1.5882 per British pound, equates to $0.794 per Resaca common share and the closing price per share of Cano common stock on the NYSE Amex was $1.02.

As of May 28, 2010, there were approximately 154 record holders of Resaca common stock. As of May 28, 2010, there were approximately 107 record holders of Cano common stock and approximately 7,300 beneficial holders of Cano common stock in street name. Additionally, as of May 28, 2010, there were 16 record holders of Cano preferred stock.

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Dividends and Other Distributions

Resaca does not currently pay dividends on Resaca common stock. After the merger, the combined company intends to retain its earnings to finance the expansion of its business and for general corporate purposes. In addition, we expect that the New Facility will not permit it to pay dividends to Resaca common stock. Therefore, Resaca does not anticipate paying cash dividends on its common stock in the foreseeable future.

Cano has not declared any dividends to date on Cano common stock. Cano has no present intention of paying any cash dividends on Cano common stock in the foreseeable future. Cano's credit agreements do not permit it to pay dividends on Cano common stock. In addition, the terms of the Cano preferred stock do not permit Cano to pay dividends on Cano common stock without the approval of the holders of a majority of the Cano preferred stock.

For the year ended June 30, 2009, the Cano preferred stock dividend was $2.7 million, of which $1.6 million pertained to holders of the payment-in-kind dividend option. For the nine months ended March 31, 2010, the Cano preferred stock dividend was $1.4 million, of which $0.8 million pertained to holders of the payment-in-kind dividend option.

We expect that the New Facility will not permit us to pay dividends to holders of Resaca common stock. In addition, the terms of the Resaca preferred stock will not permit Resaca to pay dividends on Resaca common stock without the approval of a majority of the Resaca preferred stock. Therefore, we do not anticipate paying cash dividends on our common stock in the forseeable future.

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CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING STATEMENTS

This proxy statement and the documents that are incorporated by reference include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to as the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, and the Private Securities Litigation Reform Act of 1995 about Cano that are subject to risks and uncertainties. All statements other than statements of historical fact included in, or incorporated by reference into, this proxy statement are forward-looking statements. Forward-looking statements may be found under "Summary," "The Merger," "Risk Factors," "Unaudited Pro Forma Combined Financial Statements" and the risk factors in the periodic reports filed under the Exchange Act by Cano and elsewhere in this proxy statement regarding the outlooks or expectations for earnings, revenues, expenses, financial position, business strategy, production and reserve growth, possible or assumed future results of operations, and other plans and objectives for the future operations of Resaca and Cano, and statements regarding integration of the businesses of Resaca and Cano and general economic conditions. Specifically, forward looking statements may include:

- statements relating to the benefits of the merger, including anticipated synergies and cost savings estimated to result from the merger;
- statements relating to future business prospects, revenue, income and financial condition; and
- statements that are predictive in nature, that depend upon or refer to future events or conditions, or that are preceded by, followed by or that include the words "estimate," "plan," "project," "forecast," "intend," "expect," "anticipate," "believe," "seek," "target" or similar expressions.

Forward-looking statements are subject to risks and uncertainties and include information concerning cost savings from the merger. Although Cano believes that in making such statements its expectations are based on reasonable assumptions, such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected.

You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this proxy statement, or in the case of a document incorporated by reference, as of the date of that document. Except as required by law, Cano undertakes no obligation to publicly update or release any revisions to these forward-looking statements to reflect any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The following important factors, in addition to those discussed under "Risk Factors" and elsewhere in this proxy statement, could affect the future results of the energy industry in general, and the combined company after the merger in particular, and could cause those results to differ materially from those expressed in or implied by such forward-looking statements:

- uncertainties inherent in the development and production of and exploration for oil and gas and in estimating reserves;
- unexpected difficulties in integrating the operations of Resaca and Cano;
- unexpected future capital expenditures (including the amount and nature thereof);
- impact of oil and gas price fluctuations;
- the effects of the combined company's indebtedness, which could adversely restrict its ability to operate, could make the combined company vulnerable to general adverse economic and industry conditions, could place it at a competitive disadvantage compared to its competitors that have less debt, and could have other adverse consequences;

- the effects of competition;
- the success of the combined company's risk management activities;
- the availability (or lack thereof) of acquisition or combination opportunities;
- the impact of current and future laws and governmental regulations;
- environmental liabilities that are not covered by an effective indemnity or insurance; and
- general economic, market or business conditions.

All written and oral forward-looking statements attributable to Cano or persons acting on behalf of Cano are expressly qualified in their entirety by such factors. For additional information with respect to these factors, see "Where You Can Find More Information" on page II-8.

RISK FACTORS

In addition to the other information contained in or incorporated by reference into this proxy statement, you should carefully consider the following risk factors in deciding how to vote on the merger. In addition, you should read and consider the risks associated with each of the businesses of Resaca and Cano because these risks will also relate to the combined company.

Risks Relating to the Merger

Because the market price of Resaca common stock will fluctuate, Cano stockholders cannot be sure of the market value of the Resaca common stock that they will receive.

When we complete the merger, shares of Cano common stock will be converted into the right to receive 0.42 shares of Resaca common stock. The exchange ratio is fixed and will not be adjusted for changes in the market price of either Resaca common stock or Cano common stock. The merger agreement does not provide for any price-based termination right. Accordingly, the market value of the shares of Resaca common stock that Resaca grants and Cano stockholders will be entitled to receive when we complete the merger will depend on the market value of shares of Resaca common stock at the time that we complete the merger and could vary significantly from the market value on the date of this proxy statement or the date of the Cano annual meeting. The market value of the shares of Resaca common stock will also continue to fluctuate after the completion of the merger. For example, for the period from July 17, 2008 (the date of Resaca's initial public offering) through December 31, 2009, the market price of Resaca common stock ranged from a low of $0.19 (assuming an exchange rate of U.S. $1.4914 per British pound) to a high of $2.68 (assuming an exchange rate of U.S. $1.9984 per British pound), all as reported on the AIM. For the period from July 1, 2008 through December 31, 2009, the market price of Cano common stock ranged from a low of $0.22 to a high of $8.03. See "Comparative Per Share Market Price and Dividend Information" on page I-50. The market price of Resaca common stock on May 28, 2010 was $0.62. The market price of Cano common stock on May 28, 2010 was $1.11.

These variations could result from changes in the business, operations or prospects of Cano or Resaca prior to or following the merger, regulatory considerations, general market and economic conditions and other factors both within and beyond the control of Resaca or Cano.

The issuance of shares of Resaca common stock to Cano stockholders in the merger will substantially reduce the percentage interests of Resaca shareholders.

If the merger is completed, Resaca will issue up to approximately 19.3 million shares of Resaca common stock in the merger (assuming the Resaca shareholder approval of the Reverse Stock Split). Based on the number of shares of Resaca and Cano common stock outstanding on the Resaca and Cano record dates, prior to completion of the offering, Cano common stockholders will own, in the aggregate, approximately 50% of the shares of common stock of the combined company outstanding immediately after the merger. The issuance of shares of Resaca common stock to Cano stockholders in the merger and to holders of assumed options and restricted stock units to acquire shares of Cano common stock will cause a significant reduction in the relative percentage interest of current Resaca shareholders in earnings, voting, liquidation value and book and market value.

In connection with the merger, all of Resaca's and Cano's indebtedness will need to be refinanced.

As a condition precedent to the consummation of the merger, all of the outstanding indebtedness of Resaca and Cano will need to be refinanced. Due to prevailing conditions in the debt markets, debt financing to fund such refinancing may not be available on terms favorable to the combined company or at all. At May 28, 2010, the aggregate principal amount of the outstanding indebtedness of Resaca and Cano was approximately $100.9 million.

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Failure to complete the merger for regulatory or other reasons could adversely affect Resaca and Cano stock prices and their future business and financial results.

Completion of the merger is conditioned upon, among other things, the consent of the lenders under the credit facilities of each of Resaca and Cano and the completion of the offering. There is no assurance that Resaca and Cano will be successful in its efforts to obtain such consents or that Resaca will be able to refinance the credit facilities upon the closing of the merger. There can be no assurance that Resaca will successfully complete the offering or raise the anticipated amount of proceeds. Failure to complete the proposed merger would prevent Resaca and Cano from realizing the anticipated benefits of the merger. Each company will also remain liable for significant transaction costs, including legal, accounting and financial advisory fees. In addition, Resaca and/or Cano may be unable to obtain future covenant waivers from their respective lenders, which could result in Resaca's and/or Cano's default on their respective obligations under one or both of their respective credit agreements and the acceleration of all indebtedness outstanding under those credit agreements. Further, the market price of each company's common stock may reflect various market assumptions as to whether the merger will occur. Consequently, the completion of, or failure to complete, the merger could result in a significant change in the market price of Resaca's and Cano's common stock.

The issuance of common stock in the offering will dilute the existing ownership interests of the Resaca shareholders and Cano stockholders.

The issuance of shares of Resaca common stock in the offering will have the following effects:

- an individual's proportionate ownership interest in the combined company will decrease; and
- the relative voting strength of each previously outstanding share of Resaca common stock and Cano common stock will be reduced.

In addition, the issuance of shares of Resaca common stock in the offering may result in the following:

- the market price of our common stock declining; and
- our earnings per share being reduced.

Trading in Resaca's common stock will be temporarily suspended while the merger is completed.

Resaca must temporarily suspend trading in its common stock on the AIM while the merger is completed. Because the merger will constitute a reverse takeover under the AIM rules, Resaca common stock must be readmitted to trading on the AIM immediately following the merger. Following the Resaca annual meeting and the pricing of the offering, trading of Resaca common stock on the AIM will be suspended until the completion of the merger and the closing of the offering. During the time that the Resaca common stock is not trading, Resaca shareholders will not be able to sell their shares or buy additional shares of Resaca common stock on the AIM. The value of the Resaca common stock may face significant material adverse consequences due to the suspension, including reduced value and liquidity.

Failure to complete the offering will adversely affect the ability of Cano and Resaca to consummate the merger.

If Resaca is unable to complete the underwritten offering of between $50 million and $75 million of its common stock (which amount may be increased or decreased in the sole discretion of the Resaca board of directors in accordance with the provisions of the Securities Act and the rules and regulations promulgated thereunder), it will be unable to reduce existing indebtedness of the combined company, as required by the New Facility. Entering into the New Facility is a condition to closing the merger. Accordingly, if the offering does not result in gross proceeds to Resaca of at least approximately $45 million, Resaca will have to renegotiate the New Facility. Failure to do so will negatively impact

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Resaca's ability to consummate the merger upon the terms presently contemplated and could result in a termination of the merger agreement.

Resaca may not be able successfully to integrate its operations with Cano's operations.

Integration of Cano's operations with Resaca's will be a complex, time consuming and costly process involving the following risks and difficulties, among others:

- Cano's properties may not produce revenues, earnings or cash flow at anticipated levels;
- we may have exposure to unanticipated liabilities and costs, some of which may materially exceed our estimates;
- we may experience material difficulties in integrating personnel with diverse backgrounds and a differing organizational culture;
- we may lose customers, suppliers, partners and agents of Cano;
- the merger may disrupt our ongoing business, distract management, divert resources and make it difficult to maintain our current business standards, controls and procedures, including internal controls and procedures required under the Sarbanes-Oxley Act of 2002; and
- we may experience material difficulties and additional costs in consolidating corporate and administrative functions.

As a result, we may be unable to integrate Cano successfully and realize anticipated economic, operational and other benefits in a timely manner, which could result in substantial costs and delays or other operational, technical or financial problems.

Because certain directors and executive officers of Cano have interests in seeing the merger completed that are different from the interests of other Cano stockholders, these persons may have conflicts of interest in recommending that Cano stockholders vote to approve the merger agreement.

The directors and executive officers of Cano are parties to agreements or participate in other arrangements that give them interests in the merger that are different from the interests of other Cano stockholders. For example:

- Certain directors and executive officers have entered into separation agreements in connection with the merger entitling them to lump sum termination payments, benefits continuation and other benefits; and
- Certain directors and executive officers of Cano will have the vesting of their stock options and restricted stock awards accelerated in full.

You should consider these interests in voting on the merger, including whether these interests may have influenced these directors and executive officers to recommend or support the merger. We have described these different interests under "The Merger Interests of Certain Persons in the Merger" beginning on page I-107.

The delay or failure to obtain all necessary third party consents and regulatory approvals from governmental entities could prevent or delay the completion of the merger and/or result in adverse financial and legal consequences to the combined company, Resaca or Cano.

The merger agreement requires that Resaca and Cano obtain the following consents and approvals from third parties and regulatory authorities prior to completion of the merger:

- the required Resaca shareholder and Cano stockholder (common and preferred) approval;

- the consent of the lenders under Resaca's and Cano's credit facilities, which consents Resaca and Cano expect to receive prior to the marketing of the offering;

- the SEC declaring effective this registration statement and the registration statement not being subject to any stop order or threatened stop order;

- the SEC declaring effective Resaca's S-1 registration statement concerning the offering and such registration statement not being subject to any stop order or threatened stop order;

- NYSE Amex authorization for listing of Resaca common stock to be issued in the merger and reserved for issuance upon the exercise of converted Cano options, which was received by Resaca on March 30, 2010;

- AIM authorization for readmission of Resaca common stock, which is anticipated to occur simultaneous with the closing of the merger;

- the consent of the parties to Resaca's and Cano's hedging agreements with respect to which it is anticipated that, upon consummation of the New Facility, there will be a novation of all of Resaca's current hedges with BP Corporation North America Inc., which we refer to as BP, to one of the lenders under the New Facility, and Cano's deriviative contracts will be remain in place with the combined company, with no consent required; and

- the consent of Resaca's nominated adviser, Seymour Pierce Limited, which we refer to as Seymour Pierce, which consent Resaca will receive prior to the mailing of its proxy statement.

Resaca or Cano may waive these requirements with respect to consents to be obtained by the other party at its discretion. If one party waives the other's requirement to obtain one or more of these third party consents and they are not obtained, the third party entitled to give the consent may have a claim against the combined company, which may result in adverse financial and legal consequences to the surviving company. Further, the delay or denial of any requisite consents, approvals or exemptions could prevent or delay the completion of the merger.

The merger may not occur if Resaca or Cano do not waive conditions to the closing of the merger that are unable to be met.

Resaca and Cano may each waive conditions to closing of the merger with respect to third party consents to be obtained by the other party at its discretion. If Resaca or Cano fail to obtain a required third party consent and cannot get a waiver from the other party, the merger may be delayed or fail to be completed.

The merger agreement contains provisions that could discourage a potential competing acquirer that might be willing to pay more to acquire Cano or that may be willing to acquire Resaca.

The merger agreement contains "no shop" provisions that restrict Resaca's and Cano's ability to solicit or facilitate proposals regarding a merger or similar transaction with another party. Further, there are only limited exceptions to Resaca's or Cano's agreement that their respective board of directors will not withdraw or adversely qualify its recommendation regarding the merger agreement. Although each of the Resaca and Cano boards are permitted to terminate the merger agreement in response to a superior proposal if they determine that a failure to do so would be inconsistent with their fiduciary duties, its doing so would entitle the other party to collect a $3.5 million termination fee from the terminating party. In addition, in certain instances if the merger agreement is terminated and Resaca or Cano consummate certain takeover transactions within six months after the termination of the merger agreement, the other party would be entitled to collect a $3.5 million termination fee from the party participating in the takeover transaction. We describe these provisions under "The Merger Agreement Termination" beginning on page I-126 and " Termination Fees and Expenses" beginning on page I-127.

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These provisions could discourage a potential competing acquirer from considering or proposing an acquisition, even if it were prepared to pay consideration with a higher value than that proposed to be paid in the merger, or might result in a potential competing acquirer proposing to pay a lower per share price than it might otherwise have proposed to pay because of the added expense of the termination fee.

There are risks associated with the Reverse Stock Split, including that the Reverse Stock Split may not result in a sustained increase in the per share price of Resaca common stock.

Resaca cannot predict whether the Reverse Stock Split will result in a sustained increase in the market price for Resaca common stock. The history of similar stock split combinations for companies in like circumstances is varied. There is no assurance that:

- the market price per share will remain in excess of the $2.00 minimum bid price as required by NYSE Amex for continued listing;

- the Reverse Stock Split will result in a per share price that will increase the ability of Resaca to attract and retain employees; or

- the Reverse Stock Split will result in a per share price that will attract brokers and investors who do not trade in lower priced stocks.

The market price of Resaca common stock will also be based on performance of Resaca and other factors, some of which are unrelated to the number of shares outstanding. If the Reverse Stock Split is effected and the market price of Resaca common stock declines, the percentage decline as an absolute number and as a percentage of the overall market capitalization of Resaca may be greater than would occur in the absence of a Reverse Stock Split. Furthermore, the liquidity of Resaca common stock could be adversely affected by the reduced number of shares that would be outstanding after the Reverse Stock Split. In addition, the Reverse Stock Split could result in some Resaca shareholders owning "odd lots" of less than one hundred (100) shares of the Resaca common stock on a post-split basis. Odd lots may be more difficult to sell, or may require greater transaction costs per share to sell than do "board lots" of even multiples of one hundred (100) shares.

The fairness opinion obtained by Cano from its financial advisor will not reflect changes in circumstances between the date of the merger agreement and the dates of either the shareholder meetings or the consummation of the merger.

On September 29, 2009, the date upon which Cano and Resaca entered into the merger agreement, RBC rendered its opinion to the Cano board of directors that, based on RBC's experience as investment bankers, as of that date and subject to the various assumptions and limitations set forth in its opinion, the exchange ratio in the merger of 2.1 shares of Resaca common stock for each share of Cano common stock (which does not give effect to the Reverse Stock Split) is fair, from a financial point of view, to the holders of Cano common stock. RBC's opinion spoke only as of the date it was rendered, was based on the conditions as they existed and information which RBC had been supplied as of such date, and was without regard to any market, economic, financial, legal or other circumstances or events of any kind or nature which may exist or occur after such date. All analyses performed by RBC for purposes of rendering its opinion were performed based on market information available as of September 28, 2009, the last trading day preceding the date of RBC's opinion, except as otherwise noted in the description of RBC's analyses in "The Merger Opinion of Cano's Financial Advisor" beginning on page I-94.

As a result, RBC's opinion does not reflect any information that was not supplied to RBC as of the date of its opinion, including information that has become available since that date that may have affected the financial projections supplied to RBC or any assumptions made by RBC for purposes of its opinion. For example, RBC's opinion does not reflect changes in the operations and prospects of

Resaca or Cano or general market and economic conditions since the date of RBC's opinion, the January 2010 sale of certain of Cano's Texas Panhandle assets or the information contained in the December 31, 2009 Haas reports, nor does it reflect the current terms of the financing of the merger (including any potential dilution resulting from the antidilution protections to be provided to the recipients of the Resaca preferred stock in connection with the offering), in either case as a result of the passage of time or developments regarding the merger. In addition, in rendering its opinion, RBC was not aware of the Reverse Stock Split and did not consider any effect of the Reverse Stock Split. The opinion only addresses the fairness, from a financial view, of the exchange ratio to the holders of Cano common stock as of the date of RBC's opinion, and not as of any other date. More current information that has become or becomes available during the period between the date of RBC's opinion and the date of either the Resaca annual meeting of shareholders or the Cano special meeting of stockholders or the consummation of the merger may alter the value of Resaca or Cano, either on a stand-alone basis or after giving effect to the merger, or the prices of shares of Resaca common stock or Cano common stock. Nevertheless, Resaca shareholders and Cano stockholders may want to consider more current information, including the more current information regarding Resaca, Cano and the merger set forth or referred to in this proxy statement.

As of the date of this proxy statement, Cano has not obtained an updated fairness opinion from RBC or any other financial advisor. Cano does not anticipate asking its financial advisor to update its opinion, and RBC has not undertaken to reaffirm or revise its opinion or otherwise comment on events occurring after the date of its opinion and does not have an obligation to update, revise or reaffirm its opinion.

For a more detailed discussion of RBC's opinion, please see "The Merger Opinion of Cano's Financial Advisor" beginning on page I-94.

Risks Relating to the Combined Company After the Merger

Upon completion of the merger, our combined debt may limit our financial and operating flexibility.

We have a firm commitment from UBNA and Natixis, to arrange the New Facility in the maximum amount of $90 million with financial institutions acceptable to us and to UBNA and Natixis. The New Facility shall be guaranteed by all of Resaca's and Cano's existing and future material subsidiaries. Upon consummation of the merger and completion of the offering, the combined company anticipates having between $34.0 million and $57.5 million in borrowings under the New Facility. This amount may change depending on the amount of proceeds raised in the offering and the corresponding amount of debt repaid from such proceeds. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Resaca Our New Facility" on page III-54.

The New Facility shall contain, among other terms, provisions for the maintenance of certain financial ratios and certain restrictions related to (i) debt, (ii) liens, (iii) mergers, (iv) asset sales, (v) investments, (vi) change of ownership, (vii) distributions, redemptions and purchase of Resaca common stock and Resaca preferred stock, and (viii) hedging transactions. The New Facility shall be secured by 80% of the value of the combined company's existing and future oil and gas properties. The New Facility will require us to maintain compliance with specified financial ratios and satisfy certain financial condition tests. The combined company's ability to comply with these ratios and financial condition tests may be affected by events beyond its control, and we cannot assure you that the combined company will meet these ratios and financial condition tests. These financial ratio restrictions and financial condition tests could limit the combined company's ability to obtain future financings, make needed capital expenditures, withstand a future downturn in its business or the economy in general or otherwise conduct necessary or desirable corporate activities.

A breach of any of these covenants or the combined company's inability to comply with the required financial ratios or financial condition tests could also result in a default under the New

Facility. A default, if not cured or waived, could result in all of the combined company's indebtedness becoming immediately due and payable. If that should occur, the combined company may not be able to pay all such debt or to borrow sufficient funds to refinance it. Please read "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources of the Combined Company" for further information regarding the combined company's future compliance with these covenants.

The substantial debt of the combined company following the merger could have important consequences for the combined company and its shareholders. For example, it could:

- increase the combined company's vulnerability to general adverse economic and industry conditions;
- limit the combined company's ability to fund future working capital and capital expenditures, to engage in future acquisitions or development activities, or to otherwise realize the value of its assets and opportunities fully because of the need to dedicate a substantial portion of its cash flow from operations to payments on its debt or to comply with any restrictive terms of its debt;
- limit the combined company's flexibility in planning for, or reacting to, changes in the industry in which it operates; and
- place the combined company at a competitive disadvantage as compared to its competitors that have less debt.

Realization of any of these factors could adversely affect the combined company's financial condition.

The combined company may not have sufficient funds to fulfill the approximately $45 million capital expenditures currently planned for the twelve months following the merger due to its current contractual obligations.

Following the merger, we expect to have current contractual obligations of approximately $129.0 million consisting of Resaca debt of $35.0 million, Cano debt of $65.9 million ($50.9 million of first lien debt and $15.0 million of subordinated debt) and Resaca preferred stock of $28.1 million (as of May 28, 2010). Immediately following the offering and closing of the New Facility, the combined company anticipates repaying all $35.0 million of Resaca's debt obligations and all $65.9 million of Cano's debt obligations with proceeds from the offering and borrowings under the New Facility. In addition, the combined company intends to use proceeds of the offering to pay between $8.1 million and $9.6 million of expenses related to the offering, the New Facility and financial advisor fees. After giving effect to the above transactions and based on Resaca and Cano debt balances as of May 28,

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2010, the combined company anticipates having between approximately $32.5 million and $56.0 million of available borrowing capacity under the New Facility, estimated as follows:

Amounts in millions

Sources	**$50 million stock offering**	**$75 million stock offering**	**Uses**	**$50 million stock offering**	**$75 million stock offering**
Proceeds from the Offering	$ 50.0	$ 75.0	Offering fees	$ 3.0	$ 4.5
Borrowings under New Facility(B)	57.5	34.0	New Facility fees and expenses	2.3	2.3
Cash on hand	1.5	1.5	Repay Cano 1st lien debt	50.9	50.9
			Repay Cano subordinated debt	15.0	15.0
			Repay existing Resaca debt facility	35.0	35.0
			Financial Advisor fees	2.3	2.3
			Severance costs(1)		
			Miscellaneous	0.5	0.5
Total Sources	$ 109.0	$ 110.5	Total Uses	$ 109.0	$ 110.5
New Facility Borrowing Base(A)	$ 90.0	$ 90.0			
Availability Under New Facility(A)-(B)	$ 32.5	$ 56.0			

(1) Cash severance costs of approximately $1.9 million will be paid six months following the closing of the merger.

To the extent that net proceeds from the offering do not exceed $50 million, the combined company may not have sufficient borrowings under its New Facility to adequately fund its current expected capital expenditures.

The combined company may not have the funds that it needs to redeem the Resaca preferred stock outstanding at its maturity date.

The Resaca preferred stock is subject to mandatory redemption at its maturity date. The holders of the Resaca preferred stock have the option to convert the Resaca preferred stock to Resaca common stock through the maturity date of October 6, 2012. If any Resaca preferred stock remains outstanding on October 6, 2012, then Resaca is required to redeem the Resaca preferred stock in cash equal to the stated value of the Resaca preferred stock, plus accrued dividends and paid-in-kind dividends. The combined company expects to finance the redemption of outstanding Resaca preferred stock, if any, on October 6, 2012, through a combination of cash on hand, available debt borrowings and/or equity issuances but there can be no assurances that that the combined company will be able to finance the redemption as anticipated. At such time, the combined company may not have sufficient cash on hand to finance the redemption. Also, at such time, debt borrowings may not be available and/or the combined company may not be able to complete an equity issuance to finance the redemption of Resaca preferred stock.

If the combined company cannot obtain sufficient capital when needed, the combined company will not be able to continue with its business strategy as currently contemplated.

The combined company's business strategy includes developing and acquiring interests in mature oil fields with established primary and/or secondary reserves that may possess significant remaining upside exploitation potential by implementing various secondary and/or tertiary EOR techniques. The combined company's capital expenditures are estimated to total approximately $45 million during the twelve months following the merger. We plan to fund these capital expenditures with cash on hand, cash flow from operations and availability under the New Facility. After giving effect to the offering and the transactions described on page I-60, the combined company anticipates having between $33 and $56 million of available borrowing capacity under the New Facility. If the proceeds from the offering are less than $50 million, we project that over the next twelve months following the merger we will need to raise funds in addition to fully utilizing all available borrowings under the New Facility in order to fund the combined company's development activities and working capital needs. The combined company's ability to raise additional capital will principally depend on the status of the capital and loan markets and the combined company's results of operations at the time it seeks such capital. Accordingly, the combined company may not be able to obtain financing in sufficient amounts or on acceptable terms when needed, which could lead to a decline in our oil and natural gas reserves and could adversely affect its operating results and prospects. If we cannot raise the capital required to implement our business strategy, we may be required to curtail operations or develop a different strategy, which could adversely affect our financial condition and results of operations. Future financings to provide this capital may dilute the combined company's shareholders' proportionate ownership in the combined company. Further, any debt financing must be repaid and the preferred stock must be redeemed regardless of whether or not it generates profits or cash flows from its business activities.

The combined company may be unable to compete effectively with larger companies, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

The oil and natural gas industry is intensely competitive, and the combined company will compete with other companies that have greater resources than the combined company. The combined company's ability to acquire additional properties and to develop reserves in the future will be dependent upon its ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. These companies may be able to pay more for productive oil and natural gas properties and exploratory prospects or define, evaluate, bid for and purchase a greater number of properties and prospects than the combined company's financial or human resources will permit. In addition, these companies may have a greater ability to continue exploration and development activities during periods of low oil and natural gas market prices and to absorb the burden of present and future federal, state, local and other laws and regulations. The combined company's inability to compete effectively with larger companies could have a material adverse effect on its business, results of operations, financial condition and prospects.

The combined company will incur significant charges and expenses as a result of the merger and the offering which will reduce the amount of capital available to fund its operations.

The proceeds of the offering and future available borrowings under the New Facility will be reduced by an aggregate of approximately $4.6 million of costs related to the merger and an aggregate of approximately $3.5 to $5.0 million of costs related to the offering. These expenses will include investment banking, legal, accounting and reserve engineering fees, underwriters' fees and commissions, printing costs, transition costs, and other related charges. In addition, the combined company will be required to pay approximately $1.9 million of separation payments to Cano's Chief Executive Officer and Chief Financial Officer six months following the merger. The combined company may also incur

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unanticipated costs in the merger and/or the offering. As a result, the combined company will have less capital available to fund its exploitation and development activities.

Following the merger, the combined company will be subject to potential early repayments as well as restrictions pursuant to the terms of its preferred stock, which may adversely impact its operations.

Pursuant to the terms of our preferred stock to be issued to the holders of Cano preferred stock upon the closing of the merger, if a "triggering event" occurs, the holders of Cano preferred stock will have the right to require us to redeem their Cano preferred stock at a price of at least 125% of the $1,000 per share stated value of the Resaca preferred stock plus accrued dividends, which was approximately $35.2 million in the aggregate as of May 28, 2010. "Triggering Events" include the following:

- if our common stock is suspended from trading or fails to be listed on the NYSE Amex, the New York Stock Exchange, the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market;

- if we fail to convert and do not cure this failure within ten business days after the conversion date or give notice of our intention not to comply with a request for conversion;

- if we fail to pay for at least five business days any amount when due pursuant to the terms of the preferred stock or any documents related to the sale and registration rights of the preferred stock and the common stock issuable upon conversion of the preferred stock;

- taking certain actions, or third parties taking certain actions, with regard to bankruptcy;

- a default on any indebtedness which default is not waived and the applicable grace period has expired; or

- if we breach any representation, warranty, covenant or other term or condition of any document relating to the preferred stock and the common stock issuable upon conversion of the preferred stock, which, to the extent such breach is curable, is not cured within seven business days.

There is no guarantee that the combined company would be able to repay the amounts due under the preferred stock upon the occurrence of a Triggering Event. The source of funds required as a result of any redemption of preferred stock upon a Triggering Event, include increased borrowing base, term debt, new preferred and common equity.

In addition, the combined company will be prohibited from issuing any additional preferred stock that is senior or on par with the preferred stock with regard to dividends or liquidation without the approval of holders of a majority of the preferred stock.

Approximately 70% of the combined company's total estimated proved reserves at December 31, 2009, on a pro forma combined basis, were proved undeveloped reserves and may ultimately prove to be less than estimated.

Recovery of proved undeveloped reserves requires significant capital expenditures and successful drilling operations. At December 31, 2009, approximately 40.5 MMBOE of the combined company's total estimated proved reserves were undeveloped. The reserve data included in the Resaca and Cano reserve engineer reports assume that substantial capital expenditures are required to develop non-producing reserves. The combined company's reserve report at December 31, 2009 assumes it will spend $290.1 million through December 31, 2014 to develop the combined company's estimated proved undeveloped reserves as of December 31, 2009, including an estimated $38.7 million in calendar year 2010, $4.0 million of which had been incurred at March 31, 2010. Subsequent to the calculations of our December 31, 2009 reserve report, we deferred approximately $15.0 million of planned calendar year 2010 development capital expenditures related to undeveloped reserves due to the timing of the

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merger. Although cost and reserve estimates attributable to our natural gas and crude oil reserves have been prepared in accordance with industry standards, we cannot be sure that the estimated costs are accurate, that development will occur as scheduled or that the results of such development will be as estimated. For a more detailed discussion of the combined company's liquidity, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations of Resaca Liquidity and Capital Resources of the Combined Company" beginning on page III-50 of this proxy statement.

The combined company could incur liability in connection with Cano's ongoing securities litigation.

On October 2, 2008, a lawsuit was filed in the United States District Court for the Southern District of New York, against David W. Wehlmann; Gerald W. Haddock; Randall Boyd; Donald W. Niemiec; Robert L. Gaudin; William O. Powell, III and the underwriters of the June 26, 2008 public offering of Cano common stock, which we refer to as the 2008 Cano Offering, alleging violations of the federal securities laws. Messrs. Wehlmann, Haddock, Boyd, Niemiec, Gaudin and Powell were Cano outside directors on June 26, 2008. At the defendants' request, the case was transferred to the United States District Court for the Northern District of Texas.

On July 2, 2009, the plaintiffs filed an amended complaint that added as defendants Cano, Cano's Chief Executive Officer and Chairman of the Board, S. Jeffrey Johnson, Cano's former Senior Vice President and Chief Financial Officer, Morris B. "Sam" Smith, Cano's current Senior Vice President and Chief Financial Officer, Benjamin L. Daitch, Cano's Vice President and Principal Accounting Officer, Michael Ricketts and Cano's Senior Vice President of Engineering and Operations, Patrick McKinney, and dismissed Gerald W. Haddock, a former director of Cano, as a defendant. The amended complaint alleges that the prospectus for the 2008 Cano Offering contained statements regarding Cano's proved reserve amounts and standards that were materially false and overstated Cano's proved reserves. The plaintiffs sought to certify the lawsuit as a class action lawsuit; however, the case was dismissed prior to the issue of class certification being addressed.

On July 27, 2009, the defendants moved to dismiss the lawsuit. On December 3, 2009, the U.S. District Court for the Northern District of Texas granted motions to dismiss all claims brought by the plaintiffs. On December 18, 2009, the plaintiffs filed a notice of appeal with the United States Court of Appeals for the Fifth Circuit. On April 5, 2010, Cano filed its appellate brief in support of its position. On April 19, 2010, the plaintiffs filed their response brief. Cano is cooperating with its directors and officers liability insurance carrier regarding the defense of the lawsuit. We believe that the potential amount of losses resulting from this lawsuit in the future, if any, will not exceed the policy limits of Cano's directors' and officers' insurance. We currently believe that the potential amount of losses resulting from this lawsuit in the future, if any, will not exceed the policy limits of Cano's directors' and officers' insurance. If Cano is not successful in this litigation, Cano's liability could have a material adverse impact on the combined company's results of operations.

The combined company could incur liability in connection with Cano's litigation relating to a fire that occurred on March 12, 2006 in Carson County, Texas.

Cano and certain of its subsidiaries were defendants in several lawsuits relating to a fire that occurred on March 12, 2006 in Carson County, Texas and remain defendants in one of the lawsuits. With regard to the one remaining lawsuit, on June 21, 2007, the judge of the 100th Judicial District Court issued a Final Judgment (a) granting motions for summary judgment in favor of Cano and certain of its subsidiaries on plaintiffs' claims for (i) breach of contract/termination of an oil and gas lease and (ii) negligence; and (b) granting the plaintiffs' no-evidence motion for summary judgment on contributory negligence, assumption of risk, repudiation and estoppel affirmative defenses asserted by Cano and certain of its subsidiaries.

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This final judgment was appealed and a decision was reached on March 11, 2009, as the Court of Appeals for the Tenth District of Texas in Amarillo affirmed in part and reversed in part the ruling of the 100th Judicial District Court. The Court of Appeals (a) affirmed the trial court's granting of summary judgment in Cano's favor for breach of contract/termination of an oil and gas lease and (b) reversed the trial court's granting of summary judgment in Cano's favor on plaintiffs' claims of Cano's negligence. The Court of Appeals ordered the case remanded to the 100th Judicial District Court. On March 30, 2009, the plaintiffs filed a motion for rehearing with the Court of Appeals and requested a rehearing on the affirmance of the trial court's holding on the plaintiffs' breach of contract/termination of an oil and gas lease claim. On June 30, 2009, the Court of Appeals ruled to deny the plaintiff's motion for rehearing. On August 17, 2009, Cano filed an appeal with the Texas Supreme Court to request the reversal of the Court of Appeals ruling regarding potential negligence. On December 11, 2009, the Texas Supreme Court declined to hear Cano's appeal. Therefore, this case will be remanded to the district court for trial on the negligence claims. The case has been set for trial on November 2, 2010.

The remaining plaintiff alleges damages to land and livestock, certain expenses related to fighting the fire and remedial expenses totaling approximately $1.7 million to $1.8 million. In addition the remaining plaintiff seeks termination of certain oil and natural gas leases, reimbursement of attorneys' fees and exemplary damages. Currently, known aggregate actual damage claims are approximately $1.8 million. However, the plaintiff has not provided actual damage claims for all of its claims. These actual damage claims do not include the additional claims by the plaintiff for attorneys' fees and exemplary damages, the potential amounts of which cannot be reasonably estimated. There is no remaining insurance coverage for the Cano fire litigation. Cano may not prevail in court or on further appeal or be able to settle the remaining lawsuit on acceptable terms. If Cano is not successful in this litigation, Cano's liability could have an adverse impact on the combined company's results of operations.

Business issues currently faced by one company may be imputed to the operations of the other company.

To the extent that either Resaca or Cano currently has or is perceived by customers to have operational challenges such as on-time performance, safety issues or workforce issues, those challenges may raise concerns by existing customers of the other company following the merger which may limit or impede the combined company's future ability to obtain additional work from those customers.

If the combined company is unable to replace the reserves that it has produced, its reserves and revenues will decline.

The combined company's future success depends on its ability to find, develop and acquire additional oil and gas reserves that are economically recoverable which, in itself, is dependent on oil and gas prices. Without continued successful exploitation, acquisition or exploration activities, the combined company's reserves and revenues will decline as a result of its current reserves being depleted by production. The combined company may not be able to find or acquire additional reserves at acceptable costs. The combined company's ability to make the necessary capital investments to maintain or expand its asset base of oil and natural gas reserves would be impeded to the extent cash flow from operations is reduced and external sources of capital become limited or unavailable.

The combined company may not be able to fully execute its acquisition growth strategy if it encounters illiquid capital markets or increased competition for acquisition opportunities.

The growth strategy of the combined company contemplates expansion into new assets with similar characteristics. The combined company intends to broaden its portfolio of assets into other long-life, mature U.S. oil and gas basins. In the longer-term, the combined company is also seeking to expand its portfolio of assets outside the United States. The combined company intends to concentrate on properties with strong upside potential from secondary and tertiary recovery from existing PDP, PDNP and PUD, and probable reserves.

The combined company may require substantial new capital to finance the future acquisition and development of assets and businesses. Limitations on the combined company's access to capital will impair its ability to execute this strategy. Expensive capital will limit the combined company's ability to acquire and develop attractive assets. The combined company may not be able to raise the necessary funds on satisfactory terms, if at all.

In addition, the combined company may experience increased competition for acquisition opportunities. Increased competition for a limited pool of assets could result in the combined company losing to other bidders more often or acquiring assets at higher prices. Either occurrence would limit the combined company's ability to fully execute its acquisition growth strategy. The combined company's inability to execute its growth strategy may materially adversely impact the market price of its securities.

The combined company may not be successful in acquiring, exploiting or developing oil and gas properties.

The successful acquisition, exploitation or development of, or exploration for, oil and gas properties requires an assessment of recoverable reserves, future oil and gas prices and operating costs, potential environmental and other liabilities, and other factors. These assessments are necessarily inexact. As a result, the combined company may not recover the purchase price of a property from the sale of production from the property, or may not recognize an acceptable return from properties it does acquire. In addition, the combined company's exploitation and development operations may not result in any increases in reserves. The combined company's operations may be curtailed, delayed or canceled as a result of:

- inadequate capital or other factors, such as title problems;
- weather;
- gas plant, pipelines or compressor interruptions in our operating area;
- compliance with governmental regulations or price controls;
- mechanical difficulties; or
- shortages or delays in the delivery of equipment.

In addition, exploitation and development costs may greatly exceed initial estimates. In that case, the combined company would be required to make unanticipated expenditures of additional funds to develop these projects, which could materially adversely affect its business, financial condition and results of operations.

Estimates of oil and gas reserves depend on many assumptions. Any material changes in those assumptions could adversely affect the quantity and value of the combined company's oil and gas reserves.

The combined company may not be able to successfully integrate any acquired businesses and business acquisitions may substantially increase the combined company's indebtedness and contingent liabilities.

The combined company's ability to successfully execute its growth strategy is dependent in part upon successfully executing on acquisition opportunities. As a result, from time to time, the combined company will evaluate and acquire assets and businesses that it believes complement its existing operations. Similar to the risks associated with integrating Resaca's operations with Cano's operations, the combined company may be unable to integrate successfully businesses it acquires in the future. The combined company may incur substantial expenses or encounter delays or other problems in connection with its growth strategy that could negatively impact its results of operations, cash flows and financial condition. Moreover, acquisitions and business expansions involve numerous risks, including:

- difficulties in the assimilation of the operations, technologies and services of the acquired companies or business segments;

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- inefficiencies and complexities that can arise because of unfamiliarity with new assets and the businesses associated with them, including with their markets; and

- diversion of the attention of management and other personnel from day-to-day business to the development or acquisition of new businesses and other business opportunities.

If consummated, any acquisition or investment would also likely result in the incurrence of indebtedness and contingent liabilities and an increase in interest expense and depreciation, depletion and amortization expenses. As a result, the combined company's capitalization and results of operations may change significantly following an acquisition. A substantial increase in the combined company's indebtedness and contingent liabilities could have a material adverse effect on its business.

The geographic concentration of the combined company's oil and gas reserves may have a greater effect on its ability to sell its oil and gas compared to larger, more geographically diverse companies and may make the combined company more sensitive to price volatility.

After the merger, all of the combined company's reserves will consist of oil and gas reserves in Texas, New Mexico and Oklahoma. Because the combined company's reserves are not as diversified geographically as many of its larger, more geographically diverse competitors, its business is more subject to local conditions than other, more diversified companies. Any regional events, including price fluctuations, natural disasters, oil and gas processing or transportation interruptions, and restrictive regulations, that increase costs, reduce availability of equipment or supplies, reduce demand or limit the combined company's production may impact its operations more than if its reserves were more geographically diversified. For example, if a hurricane strikes certain areas of the Texas Gulf Coast, the price received for the combined company's natural gas may be negatively impacted due to the temporary closure of natural gas pipelines or natural gas liquids processing plants in the region impacted by the hurricane.

The combined company's acquisition strategy could fail or present unanticipated problems for its business in the future, which could adversely affect its ability to make acquisitions or realize anticipated benefits of those acquisitions.

The combined company's growth strategy may include acquiring oil and gas businesses and properties. Resaca may not be able to identify suitable acquisition opportunities or finance and complete any particular acquisition successfully. Furthermore, acquisitions involve a number of risks and challenges, including:

- diversion of management's attention;

- the need to integrate acquired operations;

- potential loss of key employees of the acquired companies;

- difficulty in assuming recoverable reserves, future production rates, operating costs, infrastructure requirements, environmental and other liabilities, and other factors beyond the combined company's control;

- potential lack of operating experience in a geographic market of the acquired business; and

- an increase in the combined company's expenses and working capital requirements.

Any of these factors could adversely affect the combined company's ability to achieve anticipated levels of cash flows from its acquired businesses or realize other anticipated benefits of those acquisitions.

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The combined company intends to continue hedging a portion of its production, which may result in it making cash payments or prevent it from receiving the full benefit of increases in prices for oil and gas.

Resaca and Cano reduce their respective exposure to the volatility of oil and gas prices by actively hedging a portion of their production. Hedging also prevents Resaca and Cano from receiving the full advantage of increases in oil or gas prices above the fixed amount specified in the hedge agreement. In a typical hedge transaction, it is anticipated that the combined company will have the right to receive from the hedge counterparty the excess of the fixed price specified in the hedge agreement over a floating price based on a market index, multiplied by the quantity hedged. If the floating price exceeds the fixed price, the combined company will be required to pay the counterparty this difference multiplied by the quantity hedged even if the combined company were to have insufficient production to cover the quantities specified in the hedge agreement. Accordingly, if the combined company has less production than it has hedged when the floating price exceeds the fixed price, it will be required to make payments against which there are no offsetting sales of production. If these payments become too large, the remainder of the combined company's business may be adversely affected. In addition, the combined company's hedging agreements will expose it to risk of financial loss if the counterparty to a hedging contract defaults on its contract obligations.

Loss of key executives and failure to attract qualified management could limit the combined company's growth and negatively impact its operations.

Successfully implementing the combined company's strategies will depend, in part, on its management team. The loss of members of its management team could have an adverse effect on its business. The combined company's exploitation success and the success of other activities integral to its operations will depend, in part, on its ability to attract and retain experienced engineers, geoscientists and other professionals. Competition for experienced professionals is extremely intense. If the combined company cannot attract or retain experienced technical personnel, its ability to compete could be harmed.

It is currently contemplated that J.P. Bryan will serve as the Chief Executive Officer of the combined company until the combined company can complete an executive search and hire a Chief Executive Officer. It may take up to one year or more to complete this process, and there can be no assurance that the company will find qualified candidates on terms acceptable to its board of directors.

Loss of the combined company's relationship with Torch Energy Advisors and its affiliates could negatively impact its operations.

Resaca currently has an Amended and Restated Agreement for Administrative Services dated January 1, 2009, which we refer to as the Services Agreement, and an Amended and Restated Co-Employment Agreement dated January 1, 2009, which we refer to as the Co-Employment Agreement, with Torch, an affiliate of Resaca and its Chairman of the Board, J.P. Bryan, and Chief Executive Officer, John J. Lendrum, III, for the provision of operational, accounting and financial services, as well as the promotion of benefits and other services to Resaca's employees. Under the terms of these agreements, Resaca utilizes certain employees and assets of Torch and its affiliates in its business. If the relationship with Torch or any of its affiliates were to be terminated, this could have a negative impact on the combined company's ability to function effectively pending the replacement of such Torch employees and assets. If Torch is unable to perform its obligations under the Services Agreement, or if Torch is unable to perform its obligations under the Co-Employment Agreement or other agreements with Resaca, this could have a negative impact on the combined company's ability to function effectively pending the replacement of these services.

Resales of shares of Resaca common stock following the merger and additional obligations to issue shares of Resaca common stock may cause the market price of Resaca common stock to fall.

As of March 31, 2010, approximately 96.9 million shares of Resaca common stock were outstanding and approximately 5.0 million shares of Resaca common stock were subject to outstanding options, restricted stock awards, and other rights to purchase or acquire its shares. Resaca currently expects that it will issue approximately 19.3 million shares of Resaca common stock in connection with the merger. The issuance of these new shares of Resaca common stock, the sale of additional shares of Resaca common stock that may become eligible for sale in the public market from time to time upon exercise of options or vesting of restricted stock awards and any future issuances of common stock as consideration for future acquisitions and investments could have the effect of depressing the market price for shares of Resaca common stock.

The trading price of shares of Resaca common stock after the merger may be affected by factors different from those affecting the price of shares of Cano common stock or shares of Resaca common stock before the merger.

When we complete the merger, holders of Cano common stock will become holders of Resaca common stock. The results of operations of Resaca, as well as the trading price of Resaca common stock, after the merger may be affected by factors different from those currently affecting Resaca's or Cano's results of operations and the trading price of Cano common stock. For a discussion of the businesses of Resaca and Cano and of certain factors to consider in connection with those businesses, see "Business & Financial Information of Resaca and Cano" beginning on pages III-1.

If the Rig Acquisition is not approved by the Resaca shareholders, then the combined company will have to unwind the Rig Acquisition, return the Rig Assets and locate other acceptable assets to replace them.

Resaca's board has approved the Rig Acquisition and submitted the matter for shareholder approval at its annual meeting. If the shareholders do not ratify and approve the Rig Acquisition, the combined company will unwind the transaction, return the Rig Assets and real property to PBWS and receive the shares of Resaca common stock tendered as payment for the Rig Assets. Without the Rig Assets, the combined company would have to negotiate a new lease on office space, a rig yard in or around Odessa, Texas, lease or purchase comparable rigs and enter into an operating agreement with PBWS or another third party to operate the rigs. There can be no assurance that the combined company would be able to obtain comparable assets on similar terms, if at all, in the current market. The failure of the combined company to procure comparable assets could adversely affect its operations and drilling program.

If Resaca identifies differences between its accounting policies and those of Cano upon consummation of the merger, conforming those differences in accounting policies could have a material impact on the combined company's financial statements.

The integration of Cano with Resaca will involve developing and implementing uniform accounting policies, internal controls and procedures, disclosure controls and procedures and other governance policies and standards. Upon consummation of the merger, Resaca will review Cano's accounting policies. As a result of that review, Resaca may identify differences between the accounting policies of the two companies that, when conformed, could have a material impact on the combined company's financial statements.

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The borrowing base under the New Facility may be reduced below the amount of our outstanding borrowings under that facility.

The amount we are able to borrow under the New Facility is determined based on the value of our proved oil and natural gas reserves and is based on oil and natural gas price assumptions that vary by individual lender. Our borrowing base is subject to redetermination twice each year in February and August with the option for one additional redetermination during the interval between each scheduled redetermination and additional redeterminations based upon certain material dispositions. Should there be a deficiency in the amount of our borrowing base in comparison to our outstanding debt under the New Facility, we would be required to repay any such deficiency in five equal monthly installments, beginning 30 days after the notice of redetermination. If we were unable to make those repayments, we would be in default under the New Facility, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

The present value of future net cash flows from Resaca's and Cano's proved reserves may not be the same as the current market value of Resaca's and Cano's estimated crude oil, natural gas and natural gas liquids, which we refer to as NGLs, reserves.

In accordance with the requirements of the SEC, the estimated discounted future net cash flows from our proved reserves are based on prices and costs on the date of the estimate, held flat for the life of the properties. Actual future prices and costs may differ materially from those used in the present value estimate. The present value of future net revenues from our proved reserves as of June 30, 2009 was based on a NYMEX price of $69.89 per barrel for crude oil and NYMEX natural gas prices of $3.84 per MMBtu for Resaca and $3.71 per MMBtu for Cano on June 30, 2009.

If crude oil prices were $1.00 per Bbl lower than the price used, Resaca's standardized measure as of June 30, 2009 would have decreased from $136.2 million to $133.1 million, and Cano's standardized measure as of June 30, 2009 would have decreased from $282.0 million to $275.1 million. If natural gas prices were $0.10 per MMBtu lower than the price used, Resaca's standardized measure as of June 30, 2009, would have decreased from $136.2 million to $135.8 million, Cano's standardized measure as of June 30, 2009, would have decreased from $282.0 million to $279.6 million. Any adjustments to the estimates of proved reserves or decreases in the price of crude oil or natural gas may decrease the value of shares of Resaca common stock.

In accordance with the requirements of the SEC, the estimated discounted future net cash flows from our proved reserves are based on prices and costs on the date of the estimate, held flat for the life of the properties. Actual future prices and costs may differ materially from those used in the present value estimate. The present value of future net revenues from our proved reserves as of December 31, 2009 was based on a NYMEX price of $79.39 per barrel for crude oil and NYMEX natural gas price of $5.82 per MMBtu.

Actual future net cash flows will also be affected by increases or decreases in oil and gas demand and changes in governmental regulations or taxation. The timing of both the production and the incurrence of expenses in connection with the development and production of oil and natural gas properties affects the timing of actual future net cash flows from proved reserves. In addition, the 10% discount factor, which is required by the SEC to be used in calculating discounted future net cash flows for reporting purposes, is not necessarily the most appropriate discount factor. The effective interest rate at various times and the risks associated with the combined company's business or the oil and gas industry in general will affect the accuracy of the 10% discount factor.

The discounted future net revenues included in this proxy statement should not be considered as the market value of the reserves attributable to our properties. The estimated discounted future net revenues from proved reserves are generally based on prices and costs as of the date of the estimate,

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while actual future prices and costs may be materially higher or lower. Actual future net revenues will also be affected by factors such as:

- the amount and timing of actual production;
- supply and demand for oil and gas; and
- changes in governmental regulations or taxation.

In addition, the 10% discount factor, which the SEC requires to be used to calculate discounted future net revenues for reporting purposes, is not necessarily the most appropriate discount factor based on the cost of capital in effect from time to time and risks associated with the combined company's business and the oil and gas industry in general. Actual net revenues may be materially higher or lower.

Resaca's and Cano's estimated reserves are based on many assumptions that may prove inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of the combined company's reserves.

No one can measure underground accumulations of oil and natural gas in an exact way. Oil and natural gas reserve engineering requires subjective estimates of underground accumulations of oil and natural gas and assumptions concerning future oil and natural gas prices, production levels, and operating and development costs. As a result, estimated quantities of proved reserves and projections of future production rates and the timing of development expenditures may prove to be inaccurate. Additionally, prior to the completion of the merger, Cano's proved reserve estimates were prepared each year at June 30th by Miller and Lents, Ltd. Upon completion of the merger, Haas Petroleum Engineering Services, Inc., which we refer to as Haas, will prepare the combined company's future reserve reports. Any material inaccuracies in Resaca's or Cano's existing reserve estimates, underlying assumptions or material differences in Haas' estimates of proved reserves acquired from Cano will materially affect the quantities and present value of the combined company's reserves, which could adversely affect the combined company's business, results of operations, financial condition and prospects.

The proved oil and gas reserve information included in this proxy statement represents only estimates. These estimates are based on reports prepared by independent petroleum engineers. The estimates were calculated using oil and gas prices in effect on the date indicated in the reports. Any significant price changes will have a material effect on the quantity and present value of the combined company's reserves.

Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. Estimates of economically recoverable oil and gas reserves and future net cash flows depend upon a number of variable factors and assumptions, including:

- historical production from the area compared with production from other comparable producing areas;
- the assumed effects of regulations by governmental agencies;
- assumptions concerning future oil and gas prices; and
- assumptions concerning future operating costs, severance and excise taxes, development costs and workover and remedial costs.

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Because all reserve estimates are to some degree subjective, each of the following items may differ materially from those assumed in estimating reserves:

- the quantities of oil and gas that are ultimately recovered;
- the timing of the recovery of oil and gas reserves;
- the production and operating costs incurred; and
- the amount and timing of future development expenditures.

Furthermore, different reserve engineers may make different estimates of reserves and cash flows based on the same available data. Actual production, revenues and expenditures with respect to reserves will vary from estimates and the variances may be material. For example, our combined company's reserve report at December 31, 2009 assumes we will spend approximately $51 million on development capital expenditures during calendar year 2010 to develop estimated proved nonproducing and proved undeveloped reserves. As a result of the timing of the closing of the merger, approximately $15 million of development capital expenditures have been deferred from calendar year 2010. On a combined basis, we expect to spend approximately $36 million on development capital expenditures through calendar year 2010, $4 million of which had been incurred at March 31, 2010. In addition, our combined company's reserve report at December 31, 2009 also assumes that the combined company will have sufficient liquidity to meet capital needs of its development plan, which will require approximately $331 million through December 31, 2004 to develop the combined company's estimated undeveloped proved reserves as of December 31, 2009.

The combined company's business will depend on gathering and transportation facilities owned by others. Any limitation in the availability of those facilities would interfere with the combined company's ability to market the oil and natural gas that it produces.

The marketability of the combined company's oil and natural gas production will depend in part on the availability, proximity and capacity of gathering and pipeline systems owned by third parties. The amount of oil and natural gas that can be produced and sold is subject to curtailment in certain circumstances, such as pipeline interruptions due to scheduled and unscheduled maintenance, excessive pressure, physical damage to the gathering or transportation system, or lack of contracted capacity on such systems. The curtailments arising from these and similar circumstances may last from a few days to several months. In many cases, the combined company will be provided only with limited, if any, notice as to when these circumstances will arise and their duration. Any significant curtailment in gathering system or pipeline capacity, or significant delay in the construction of necessary gathering and transportation facilities, could adversely affect the combined company's business, results of operations, financial condition and prospects.

Our ability to use net operating loss carryovers to offset future taxable income may be limited.

As a result of the issuance of our common stock in the merger and the offering, we expect the combined company's federal income tax net operating loss ("NOL") carryforwards to be subject to the ownership change limitation provisions of the Internal Revenue Code. This will result in a limitation on the use of NOL carryforwards to a specified amount per year. The company expects to be able to fully utilize these existing NOL carryforwards in future years. However, there can be no certainty that any of the combined company's NOL carryforwards will be utilized by the combined company in the future.

If the waterflood project at the Cockrell Ranch Unit of the Panhandle Properties is not successful, the aggregate reserves of the Panhandle Properties would be significantly reduced or eliminated.

Cano is currently undertaking a waterflood project at the Cockrell Ranch Unit on 62 injection wells and 71 producing wells on 1,023 developed acres. Production has increased from roughly 10

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BOEPD to over 100 BOEPD since the initial phase of the project was started in July of 2007. A number of conformance issues, caused by using prior injectors that were open-hole completed, has limited the rate of project response. Cano has embarked on an active isolation program to address these issues and retained a third-party engineering firm to perform simulation modeling. This isolation program and modeling is expected to be finalized by, and cost a remaining $250,000 through, June 30, 2010. Once completed, it is felt that waterflood production growth will more closely track the analog East Schafer Ranch response profile. Under the analogous East Schafer Ranch profile, the Cockrell Ranch Unit production would increase from the current levels of 100 BOEPD to approximately 700 BOEPD or roughly 10 BOEPD per producing well within the next 18 to 24 months after completion. The Cockrell Ranch unit contains 456 MBOE of PDP reserves based on actual performance to date and 725 MBOE of remaining PUD reserves. Should the project response at the Cockrell Ranch not match the expectations for the PUD reserve profile, the reserves for this project area would be significantly reduced or eliminated. Moreover, a complete failure at the Cockrell Ranch Unit waterflood would impair the PUD reserve calculations for the properties immediately adjacent to the Cockrell Ranch, and could partially impair the remainder of the Panhandle Properties.

Risks Relating to the Oil and Gas Industry

Volatile oil and gas prices could adversely affect the combined company's financial condition and results of operations.

The combined company's success is largely dependent on oil and gas prices, which are extremely volatile. Any substantial or extended decline in the price of oil and gas below current levels will have a material adverse effect on its business operations and future revenues. Moreover, oil and gas prices depend on factors the combined company cannot control, such as:

- supply and demand for oil and gas and expectations regarding supply and demand;
- weather;
- actions by the Organization of Petroleum Exporting Countries;
- political conditions in other oil-producing and gas-producing countries including the possibility of terrorism, insurgency or war in such areas;
- the prices of foreign exports and the availability of alternative fuel sources;
- valuation of U.S. Dollar;
- general economic conditions in the United States and worldwide; and
- governmental regulations.

With respect to the combined company's business, prices of oil and gas will affect:

- its revenues, cash flows, profitability and earnings;
- its ability to attract capital to finance its operations and the cost of such capital;

- the amount that it is allowed to borrow; and

- the value of its oil and gas properties.

Any prolonged, substantial reduction in the demand for oil and gas, or distribution problems in meeting this demand, could adversely affect the combined company's business.

The combined company's success is materially dependent upon the demand for oil and gas. The availability of a ready market for its oil and gas production depends on a number of factors beyond its control, including the demand for and supply of oil and gas, the availability of alternative energy sources, the proximity of reserves to, and the capacity of, oil and gas gathering systems, pipelines or trucking and terminal facilities. The combined company may also have to shut-in some of its wells temporarily due to a lack of market or adverse weather conditions. If the demand for oil and gas diminishes, the combined company's financial results would be negatively impacted.

In addition, there are limitations related to the methods of transportation for the combined company's production. Substantially all of the combined company's oil and gas production is transported by pipelines and trucks owned by third parties. The inability or unwillingness of these parties to provide transportation services to the combined company for a reasonable fee could result in it having to find transportation alternatives, increased transportation costs or involuntary curtailment of a significant portion of its oil and gas production, any of which could have a negative impact on its results of operation and cash flows.

Resaca's and Cano's estimates of proved reserves and related PV-10 and standardized measure of discounted future net cash flows, which were prepared and presented under applicable SEC rules, may change materially as a result of new SEC rules that will go into effect for fiscal years ending on or after December 31, 2009.

This proxy statement presents estimates of Resaca's and Cano's proved reserves and related PV-10 and standardized measure of discounted future net cash flows as of June 30, 2009 and December 31, 2009. The combined company will begin complying with the disclosure requirements of the final rule in its annual report on Form 10-K for the year ending June 30, 2010. These estimates do not include the effect of the SEC's revised oil and gas rules, *"Modernization of Oil and Gas Reporting,"* issued in December 2008, which is effective for annual reports on Forms 10-K for fiscal years ending on or after December 31, 2009 and registration statements filed after such date. The revised SEC rules include changes to the pricing used to estimate reserves, the ability to include nontraditional resources in reserves, the use of new technology for determining reserves and permitted disclosure of probable and possible reserves. The estimated proved reserves, future net revenues and PV-10 presented at December 31, 2009 were determined using SEC rules in effect for fiscal years prior to December 31, 2009, including the use of end of the period prices for oil and natural gas as of December 31, 2009, which were $79.39 per barrel of oil and $5.82 per MMBtu of natural gas instead of an unweighted average 12-month price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period ended December 31, 2009, of $61.18 per Bbl for oil and $3.87 per MMBtu for natural gas under the new SEC rules. Haas estimates that, had the combined company applied unweighted 12-month average pricing at December 31, 2009 under the SEC's revised rules, the combined company's proved reserves would have decreased by 1.7 MMBOE, which is a reduction of 3% as compared to proved reserves of 57.5 MMBOE using December 31, 2009 flat pricing. Haas estimates that utilizing the unweighted 12-month average pricing at December 31, 2009 would have reduced the PV-10 value of the combined company's proved reserves by $404.9 million or 52% as compared to PV-10 value of proved reserves of $773.5 million using December 31, 2009 flat pricing. Beginning June 30, 2010, the combined company will be required to prepare its reserve estimates using the definitions and pricing required by the SEC's revised rules.

Another impact of the new SEC rules is a general requirement that, subject to limited exceptions, proved undeveloped reserves may only be booked if they relate to wells scheduled to be drilled within five years of the date of booking. This new rule may reduce a portion of the combined company's estimated proved undeveloped reserves at December 31, 2009, and may limit our potential to book additional proved undeveloped reserves. Moreover, we may be required to write down our proved undeveloped reserves if we do not develop those reserves within the required five-year timeframe. The impact of the SEC's revised rules on the combined company's estimates, and in particular the combined company's estimates of its proved undeveloped reserves, could be material.

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Enhanced oil recovery, or EOR, techniques that we may use, such as CO_2 flooding and alkali-surfactant-polymer flooding, involve more risk than traditional water flooding.

EOR techniques such as CO_2 injection and alkali-surfactant-polymer, or ASP, chemical injection involve significant capital investment and an extended period of time, generally a year or longer, from the initial phase of a pilot program until increased production occurs. In addition, the results of any successful pilot program may not be indicative of actual results achieved in a broader EOR project in the same field or area. Generally, CO_2 and ASP injection are regarded as involving more risk than traditional water flood operations. Our ability to effectively utilize EOR projects to convert probable reserves to proved reserves and achieve commercial production is contingent upon many uncertainties associated with our use of EOR technology, including CO_2 and ASP technologies, geological uncertainties, chemical and equipment availability, rig availability and many other factors.

Operating hazards, natural disasters or other interruptions of the combined company's operations could result in potential liabilities, which may not be fully covered by its insurance.

The oil and gas business involves certain operating hazards such as:

- well blowouts;
- cratering;
- explosions;
- uncontrollable flows of oil, gas or well fluids;
- fires;
- pollution; and
- releases of toxic gas.

Consistent with insurance coverage generally available to the industry, the combined company's insurance policies provide limited coverage for losses or liabilities. The insurance market in general and the energy insurance market in particular have been difficult markets over the past several years. As a result, Resaca and Cano do not believe that insurance coverage for the full potential liability, especially environmental liability, is currently available at a reasonable cost. If the combined company incurs substantial liability and the damages are not covered by insurance or are in excess of policy limits, or if it incurs liability at a time when it is not able to obtain liability insurance, then its business, results of operations and financial condition could be materially adversely affected.

Decommissioning costs could exceed the value of remaining reserves.

The combined company may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines which it may use for production of oil and gas. Abandonment and reclamation of facilities and the costs associated therewith is often referred to as "decommissioning." Should decommissioning be required, the costs of decommissioning may exceed the value of reserves remaining at any particular time to cover such decommissioning costs. The combined company may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy such decommissioning costs could have a material adverse effect on the combined company's financial position and future results of operations.

Governmental agencies and other bodies might impose regulations that increase the combined company's costs and may terminate or suspend its operations.

The combined company's business is subject to federal, state and local laws and regulations as interpreted by governmental agencies and other bodies vested with much authority relating to the exploration for, and the development, production and transportation of, oil and gas, as well as environmental and safety matters. Existing laws and regulations could be changed, and any changes could increase costs of compliance and costs of operating drilling equipment or significantly limit drilling activity.

Under certain circumstances, the United States Minerals Management Service may require that the combined company's operations on federal leases be suspended or terminated. These circumstances include the combined company's failure to pay royalties or its failure to comply with safety and environmental regulations. The requirements imposed by these laws and regulations are frequently changed and subject to new interpretations.

Environmental liabilities could adversely affect the combined company's financial condition.

The oil and gas business is subject to environmental hazards, such as oil spills, gas leaks and ruptures and discharges of petroleum products and hazardous substances, and historic disposal activities. These environmental hazards could expose the combined company to material liabilities for property damages, personal injuries or other environmental harm, including costs of investigating and remediating contaminated properties. In addition, the combined company also may be liable for environmental damages caused by the previous owners or operators of properties it has purchased or is currently operating. A variety of stringent federal, state and local laws and regulations govern the environmental aspects of the combined company's business and impose strict requirements for, among other things:

- well drilling or workover, operation and abandonment;
- waste management;
- land reclamation;
- financial assurance under the Oil Pollution Act of 1990; and
- controlling air, water and waste emissions.

Any noncompliance with these laws and regulations could subject the combined company to material administrative, civil or criminal penalties or other liabilities. Additionally, the combined company's compliance with these laws may, from time to time, result in increased costs to its operations or decreased production, and may affect its costs of acquisitions.

In addition, environmental laws may, in the future, cause a decrease in the combined company's production or cause an increase in its costs of production, development or exploration. Pollution and similar environmental risks generally are not fully insurable. See "Business & Financial Information of Resaca and Cano Business and Properties Regulation Governmental Regulation Environmental Regulations" on page III-25.

Certain U.S. federal income tax deductions currently available with respect to oil and gas exploration and development may be eliminated as a result of future legislation.

President Obama's Proposed Fiscal Year 2010 Budget includes proposed legislation that would, if enacted into law, make significant changes to United States tax laws, including the elimination of certain key U.S. federal income tax incentives currently available to oil and natural gas exploration and production companies. These changes include, but are not limited to, (i) the repeal of the percentage depletion allowance for oil and natural gas properties, (ii) the elimination of current deductions for intangible drilling and development costs, (iii) the elimination of the deduction for certain domestic production activities, and (iv) an extension of the amortization period for certain geological and geophysical expenditures. It is unclear whether any such changes will be enacted or how soon any such changes could become effective. The passage of any legislation as a result of these proposals or any

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other similar changes in U.S. federal income tax laws could eliminate certain tax deductions that are currently available with respect to oil and gas exploration and development, and any such change could negatively affect our financial condition and results of operations.

Climate change legislation or regulations restricting emissions of "greenhouse gases" could result in increased operating costs and reduced demand for the oil and natural gas that we produce.

On December 15, 2009, the U.S. Environmental Protection Agency ("EPA") officially published its findings that emissions of carbon dioxide, methane and other "greenhouse gases" present an endangerment to human health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the Earth's atmosphere and other climatic changes. These findings by the EPA allow the agency to proceed with the adoption and implementation of regulations that would restrict emissions of greenhouse gases under existing provisions of the federal Clean Air Act. In late September 2009, the EPA had proposed two sets of regulations in anticipation of finalizing its findings that would require a reduction in emissions of greenhouse gases from motor vehicles and that could also lead to the imposition of greenhouse gas emission limitations in Clean Air Act permits for certain stationary sources. In addition, on September 22, 2009, the EPA issued a final rule requiring the reporting of greenhouse gas emissions from specified large greenhouse gas emission sources in the United States beginning in 2011 for emissions occurring in 2010. In March 2010, the EPA announced a proposed rulemaking that would expand its final rule on reporting of GHG emissions to include owners and operators of onshore oil and natural gas production facilities. If the proposed rule is finalized in its current form, reporting of GHG emissions from such facilities would be required on an annual basis beginning in 2012 for emissions occurring in 2011. The adoption and implementation of any regulations imposing reporting obligations on, or limiting emissions of greenhouse gases from, our equipment and operations could require us to incur costs to reduce emissions of greenhouse gases associated with our operations or could adversely affect demand for the oil and natural gas that we produce.

Also, on June 26, 2009, the U.S. House of Representatives passed the "American Clean Energy and Security Act of 2009," or "ACESA," which would establish an economy-wide cap-and-trade program to reduce U.S. emissions of greenhouse gases including carbon dioxide and methane. ACESA would require a 17% reduction in greenhouse gas emissions from 2005 levels by 2020 and just over an 80% reduction of such emissions by 2050. Under this legislation, the EPA would issue a capped and steadily declining number of tradable emissions allowances to certain major sources of greenhouse gas emissions so that such sources could continue to emit greenhouse gases into the atmosphere. These allowances would be expected to escalate significantly in cost over time. The net effect of ACESA will be to impose increasing costs on the combustion of carbon-based fuels such as oil, refined petroleum products, and natural gas. The U.S. Senate has begun work on its own legislation for restricting domestic greenhouse gas emissions and the Obama Administration has indicated its support of legislation to reduce greenhouse gas emissions through an emission allowance system. Although it is not possible at this time to predict when the Senate may act on climate change legislation or how any bill passed by the Senate would be reconciled with ACESA, any future federal laws or implementing regulations that may be adopted to address greenhouse gas emissions could require us to incur increased operating costs and could adversely affect demand for the oil and natural gas that we produce.

The adoption of derivatives legislation by Congress could have an adverse impact on our ability to hedge risks associated with our business.

Congress is currently considering legislation to impose restrictions on certain transactions involving derivatives, which could affect the use of derivatives in hedging transactions. ACESA contains provisions that would prohibit private energy commodity derivative and hedging transactions. ACESA would expand the power of the Commodity Futures Trading Commission, or CFTC, to regulate

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derivative transactions related to energy commodities, including oil and natural gas, and to mandate clearance of such derivative contracts through registered derivative clearing organizations. Under ACESA, the CFTC's expanded authority over energy derivatives would terminate upon the adoption of general legislation covering derivative regulatory reform. The Chairman of the CFTC has announced that the CFTC intends to conduct hearings to determine whether to set limits on trading and positions in commodities with finite supply, particularly energy commodities, such as crude oil, natural gas and other energy products. The CFTC also is evaluating whether position limits should be applied consistently across all markets and participants. In addition, the Treasury Department recently has indicated that it intends to propose legislation to subject all OTC derivative dealers and all other major OTC derivative market participants to substantial supervision and regulation, including by imposing conservative capital and margin requirements and strong business conduct standards. Derivative contracts that are not cleared through central clearinghouses and exchanges may be subject to substantially higher capital and margin requirements. Although it is not possible at this time to predict whether or when Congress may act on derivatives legislation or how any climate change bill approved by the Senate would be reconciled with ACESA, any laws or regulations that may be adopted that subject us to additional capital or margin requirements relating to, or to additional restrictions on, our trading and commodity positions could have an adverse effect on our ability to hedge risks associated with our business or on the cost of our hedging activity.

Federal and state legislation and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays.

Congress is currently considering legislation to amend the federal Safe Drinking Water Act to require the disclosure of chemicals used by the oil and gas industry in the hydraulic fracturing process. Hydraulic fracturing involves the injection of water, sand and chemicals under pressure into rock formations to stimulate natural gas production. Sponsors of bills currently pending before the Senate and House of Representatives have asserted that chemicals used in the fracturing process could adversely affect drinking water supplies. The proposed legislation would require the reporting and public disclosure of chemicals used in the fracturing process, which could make it easier for third parties opposing the hydraulic fracturing process to initiate legal proceedings based on allegations that specific chemicals used in the fracturing process could adversely affect groundwater. These bills, if adopted, could establish an additional level of regulation at the federal level that could lead to operational delays or increased operating costs and could result in additional regulatory burdens that could make it more difficult to perform hydraulic fracturing and increase our costs of compliance and doing business. In addition, in March 2010, the EPA announced its intention to conduct a comprehensive research study on the potential adverse impacts that hydraulic fracturing may have on water quality and public health. Thus, even if the pending bills are not adopted, the EPA study, depending on its results, could spur further initiatives to regulate hydraulic fracturing under the SDWA.

Risks Related to Ownership of Our Common Stock

The market price of our common stock could be volatile due to a number of factors, many of which are beyond our control.

The market price of our common stock could be subject to wide fluctuations in response to a number of factors, most of which we cannot control, including:

- changes in securities analysts' recommendations and their estimates of our financial performance;
- the public's reaction to our press releases, announcements and our filings with the SEC;
- fluctuations in broader securities market prices and volumes, particularly among securities of oil and natural gas companies;

- changes in market valuations of similar companies;
- departures of key personnel;
- commencement of or involvement in litigation;
- variations in our quarterly results of operations or those of other oil and natural gas companies;
- future issuances and sales of securities; and
- changes in general conditions in the U.S. economy, financial markets or the oil and natural gas industry.

In recent years, the securities market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to the operating performance of these companies. Future market fluctuations may result in a lower price of our shares of common stock and could make it difficult for you to resell shares of our common stock at attractive prices.

The rights granted to holders of the Resaca preferred stock may restrict the combined company's ability to raise additional equity capital and adversely affect the rights of holders of Resaca common stock.

The issuance of shares of Resaca preferred stock by Resaca's board of directors in connection with the merger may adversely affect the rights of the holders of Resaca common stock. For example, Resaca preferred stock issued by Resaca shall rank superior to the Resaca common stock as to dividend rights and liquidation preference, shall have preferred voting rights and is convertible into shares of Resaca common stock. Accordingly, the issuance of shares of Resaca preferred stock may discourage bids for Resaca common stock or may otherwise adversely affect the market price of Resaca common stock. In addition, the holders of Resaca preferred stock have certain rights that may restrict Resaca's ability to raise additional equity capital. For example, the holders of Resaca preferred stock have a preemptive right to participate in up to 30% of any future offering of equity securities of Resaca, except for issuances of excluded securities (as defined in "Description of Resaca Capital Stock Resaca Preferred Stock Adjustments to Conversion Price" on page I-139) and Resaca common stock in the offering, including but not limited to a firm commitment underwritten offering with gross proceeds in excess of $50 million and issuances in connection with strategic acquisitions. Also, for the first nine (9) months following the initial issuance date of the Resaca preferred stock, without the prior written consent of a majority of the holders of Resaca preferred stock, Resaca may not issue Resaca common stock (excluding issuances of certain excluded securities) for which it receives proceeds (net of offering expenses, discounts and fees) of more than $50 million at a gross price per share below the market price of $0.7941 per share (which does not reflect the Reverse Stock Split). For a more detailed description of the rights granted to the holders of Resaca preferred stock, please refer to "Description of Resaca Capital Stock Resaca Preferred Stock Adjustments to Conversion Price" on page I-139 and "The Merger Investors Rights Agreement with Holders of Resaca Preferred Stock Additional Issuances of Resaca Equity" beginning on page I-114.

Our certificate of formation and bylaws discourage unsolicited takeover proposals and could prevent you from realizing a premium for your common stock.

Our certificate of formation and bylaws contain provisions that could delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider to be in such shareholder's best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders, and may make removal of the incumbent management and directors more

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difficult, which, under certain circumstances, could reduce the market price of our common stock. These provisions include:

- a classified board of directors;
- the ability of the board of directors to designate the terms of a new series of preferred stock;
- advance notice requirements for nominations for election of the board of directors; and
- requirements for approval of business combinations with interested parties.

Together, these provisions may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for your common stock.

We may issue additional equity securities, which would dilute existing ownership interests.

We may issue equity in the future in connection with capital raising, debt exchanges, acquisitions, strategic transactions or for other purposes.

The issuance of additional equity securities may have the following effects:

- an individual's proportionate ownership interest in us may decrease;
- our earnings per share could be reduced;
- the relative voting strength of each previously outstanding share may be reduced; and
- the market price of our common stock may decline.

We may issue shares of preferred stock with greater rights than our common stock

Our board of directors can, without approval of our shareholders, issue one or more series of preferred stock and determine the number of shares of each series and the rights, preferences and limitations on each series. The issuance of shares of preferred stock may adversely affect the rights of the holders of our common stock. For example, any preferred stock issued may rank ahead of our common stock as to dividend rights, liquidation preferences or voting rights, and may be convertible into shares of our common stock. As a result, the issuance of shares of preferred stock may discourage bids for our common stock or may otherwise adversely affect the market price of our common stock. See "Description of Resaca Capital Stock Resaca Preferred Stock" beginning on page I-138.

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THE MERGER

The following is a discussion of the merger and the material terms of the merger agreement among Resaca, Cano and Merger Sub. You are urged to read carefully the merger agreement in its entirety, a copy of which is attached as Annex A to this proxy statement and incorporated by reference herein. Unless stated otherwise, all information in this proxy statement, including but not limited to share calculations and the exchange ratio in the merger, is presented as if the Resaca shareholders have approved, and Resaca has implemented immediately prior to the merger, the Reverse Stock Split.

General

Pursuant to the merger agreement, Merger Sub will merge with and into Cano, with Cano being the surviving entity and a wholly-owned subsidiary of Resaca following the merger.

In the merger, each share of Cano common stock will be converted into the right to receive 0.42 shares of Resaca common stock (after giving effect to the Reverse Stock Split) and each share of Cano preferred stock will be converted into the right to receive one share of Resaca preferred stock. This equates to $1.67 per Cano common share, calculated based on the September 28, 2009 closing price of Resaca common stock on the AIM of U.K. £0.50, which, after applying an assumed exchange rate of U.S. $1.5882 per British pound and after giving effect to the Reverse Stock Split, equates to $3.9705 per Resaca common share. Immediately after the merger is completed, but immediately prior to the completion of the offering, Cano common stockholders will own approximately 50% of the common stock of the combined company, and the Resaca shareholders will own the remaining approximately 50%.

The merger is expected to qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Accordingly, the merger is expected to be tax-free to the Cano stockholders to the extent they receive Resaca common stock or Resaca preferred stock in the merger.

Background of the Merger

As part of the ongoing oversight and management of Cano's business, the board and management regularly review Cano's results of operations, prospects, and strategic direction. In November 2008, the Cano board received presentations from several investment banking firms relative to their analysis of Cano's operations, assets and financial condition. In its November 24, 2008 presentation to the Cano board, RBC identified several alternatives that could be available to Cano, including continuing the business as usual, a sale of the company, merger opportunities, and the potential acquisition of properties with producing reserves to balance the company's portfolio. On November 24, 2008, the Cano board established a strategic initiatives committee to review strategic initiatives available to Cano and report back to the board.

In December 2008, Cano formally retained RBC as its financial advisor pursuant to an engagement letter dated December 5, 2008 (which letter was later superseded by a new engagement letter with RBC dated May 6, 2009) to review and evaluate strategic options that could increase stockholder value.

Between March and July 2009, Cano entered into confidentiality agreements with six companies, including Resaca, interested in discussing potential transactions with Cano. Cano had discussions with each of these companies regarding various potential strategic transactions, but discussions with only two of the potential counterparties progressed to the point that they were considered by the Cano board, as some of these potential counterparties determined not to further pursue a transaction, while others desired to pursue transactions involving only certain of Cano's assets and/or operations or preferred a cash transaction that, in management's opinion, did not represent an appropriate valuation of Cano given then-current commodity prices.

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In early March 2009, Cano's Chief Executive Officer, S. Jeffrey Johnson, met with Resaca's Chairman of the Board, J.P. Bryan, along with representatives of RBC, in Dallas, Texas. Mr. Johnson and Mr. Bryan discussed their respective companies and the general terms of a potential merger.

On March 30, 2009, Resaca and Cano management, together with their respective financial advisors, met in Houston, Texas to discuss the possibility of a merger of the two companies and how the parties might proceed with their respective due diligence reviews. Resaca and Cano management continued these discussions in Fort Worth, Texas on March 31, 2009.

On April 22, 2009, Resaca and Cano management met in Houston, Texas to further discuss complementary synergies of the two companies and how the parties might proceed with their respective due diligence reviews.

On April 29, 2009, members of Cano and Resaca management met in Dallas, Texas with Haas Petroleum Engineering Services, Inc. to discuss Resaca's oil and gas reserves.

On May 4, 2009, Mr. Bryan met with Mr. Johnson in Fort Worth, Texas and discussed the general terms of a potential merger.

On May 6, 2009, at a meeting of the Resaca board, senior management briefed the board on the results of merger discussions with Cano.

On May 7, 2009, at a meeting of the Cano board, senior management briefed the board on the results of discussions with the various parties that had been interested in exploring potential transactions with Cano. At the same meeting, representatives of RBC made a presentation to the board on the status of the acquisition and divestiture market and alternatives that could be available to Cano at that time. RBC advised the Cano board on the likelihood of any alternative in light of the current state of the debt and equity markets. Though management was directed to continue to be open to other strategic options, such as a merger or the purchase of properties with producing reserves, the Cano board officially terminated the strategic initiatives committee at this meeting.

On May 11, 2009, Mr. Johnson met with Mr. Bryan and Resaca's Chief Executive Officer, John J. Lendrum, III in Houston, Texas. Messrs. Johnson, Bryan and Lendrum discussed the general terms of a potential merger and how a merger might be structured, including which company would maintain its public listing. They also had preliminary discussions regarding the exchange ratio to be used in a merger of the two companies.

On May 13, 2009, Mr. Lendrum met with Sylvia Barnes of Madison Williams regarding a potential engagement of Madison Williams as Resaca's financial advisor.

On May 15, 2009, Madison Williams was formally retained as exclusive financial advisor to Resaca with respect to the merger.

On May 21, 2009, Messrs. Bryan, Johnson and Lendrum had a telephone conference in which they discussed the current status of the merger negotiations.

On May 22, 2009, management of both Cano and Resaca, together with their financial advisors, met in Houston. The parties continued discussions of the general terms of a potential merger and how a merger might be structured. Cano management described the relevant rights of its preferred stockholders in the event of a merger, including, in some cases, the right under certain circumstances to require the company to redeem all of the Cano preferred stock for cash.

On May 26, 2009, management representatives of both Cano and Resaca, including the parties' respective in-house counsel, had further discussions regarding deal structure. They also discussed due diligence issues and procedures. Resaca instructed its outside counsel, Haynes and Boone LLP, which we refer to as Haynes and Boone, to draft a proposed merger agreement.

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On May 27, 2009, Resaca and Cano management representatives conducted a field inspection of some of Resaca's properties and some of Cano's properties.

On June 1, 2009, management of both Cano and Resaca, together with their outside legal counsel, discussed by phone the rights of Cano's preferred stockholders in the event of a merger and how those rights might vary depending on the transaction structure. The following day Cano opened its data room to Resaca for due diligence purposes. On June 3, 2009, Resaca opened its data rooms to Cano for due diligence purposes.

On June 5, 2009, management of both Cano and Resaca, together with certain lenders of Resaca, discussed possible refinancing scenarios for Resaca's and Cano's credit facilities.

The following week, Cano entered into confidentiality agreements with two potential financing partners and with another party interested in a strategic business combination, which we refer to as the other bidder. Cano began exploring potential transactions with these parties and also continued its discussions with Resaca concerning due diligence, transaction structure, and related matters.

On June 8, 2009, Mr. Bryan sent a term sheet to Cano outlining the terms and structure of a potential transaction. On June 9, 2009, the Cano board met with management to discuss the term sheet received from Resaca. On June 10, 2009, representatives of Cano's board spoke by phone with Mr. Bryan to clarify certain aspects of Resaca's term sheet. Then on June 11, 2009, the Cano board met without management present to evaluate the needs of the company and alternatives available to it. The board concluded that to carry out the company's business plan and meet its financial obligations, either a strategic combination or an equity financing transaction was necessary, and that in addition to pursuing a strategic combination, management should explore potential financing transactions given the limitations in the market, in general, and for Cano, in particular, with respect to size, structure, use of proceeds and timing.

In response to this Cano board directive, Cano management reviewed financing options, as well as pertinent requirements of the NYSE Amex and restrictions contained in the certificate of designations establishing Cano's preferred stock. Transactions under review by management included a common equity issuance, a convertible preferred refinancing and/or exchange, restructured credit facilities, a rights offering and other financial options including joint ventures and similar transactions.

On June 18, 2009, another bidder made contact with Mr. Johnson regarding a potential merger opportunity. On June 19, 2009, the other bidder sent an email to Mr. Johnson outlining prospective transactional terms and considerations.

On June 18, 2009, Resaca's outside counsel, Haynes and Boone, delivered to Cano's outside counsel, Thompson & Knight LLP, which we refer to as Thompson & Knight, a proposed merger agreement between Cano and Resaca.

On June 19, 2009, Mr. Bryan sent a letter to Mr. Johnson regarding capital expenditures in response to requests for information from the Cano board of directors.

On June 22, 2009, Mr. Bryan sent a letter to Mr. Johnson setting forth his proposed business strategy for the combined company and recommendations regarding the process for further negotiations between the parties. Mr. Johnson forwarded the letter to the Cano board.

Between June 22 and June 25, 2009, Messrs. Bryan and Johnson had ongoing discussions regarding the exchange ratio and other terms of the merger agreement.

On June 25, 2009, Cano management met with the other bidder to discuss the potential terms of a merger with that company. On the same day, Mr. Bryan advised Mr. Johnson by phone that Resaca was terminating all further discussions of a possible merger of Cano and Resaca. Resaca also advised its board of directors of the termination of further merger discussions with Cano.

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On June 26, 2009, the Cano board met and management advised the board of recent developments, including the status of the potential transaction with the other bidder. RBC made a presentation to the Cano board regarding the status of the discussions with the other bidder. The board also heard a presentation from management regarding potential equity financing options for the company given the overall market and current market capitalization of Cano. The board directed management to move forward with due diligence and negotiation of a transaction with the other bidder, but also directed management to prepare to conduct an equity issuance or rights offering in the event the merger negotiations were unsuccessful.

During July and the first part of August 2009, Cano and the other bidder continued conducting their respective due diligence reviews and negotiating the terms of a merger agreement. The Cano board was briefed on the progress of the transaction with the other bidder at meetings held on August 17, 2009 and August 27, 2009. At the Cano board meeting on August 27, the board discussed the other bidder's desire to attempt to raise additional capital before announcing a transaction with Cano. The Cano board directed management to continue working with the other bidder, but also to continue preparing for an equity issuance in the event an agreement with the other bidder could not be reached.

On September 2, 2009, the Chief Executive Officer of the other bidder advised Garrett Smith, a member of Cano's board, and Mr. Johnson that the other bidder had not yet been successful in its efforts to raise additional capital. On the same day, Mr. Smith and Mr. Bryan spoke about a potential transaction between Cano and Resaca. Mr. Bryan expressed interest in resuming merger discussions.

On September 4, 2009, the Cano board and management had a telephonic conference at which the board was briefed on the status of the transaction with the other bidder as well as the possibility of resuming negotiations with Resaca. Cano management provided the Cano board with an analysis of Resaca's reserves and liquidity. RBC presented to the board a comparison of a merger with Resaca versus an equity issuance by Cano. The Cano board directed management to resume merger negotiations with Resaca.

On September 8, 2009, Mr. Johnson and Mr. Bryan met in Colorado Springs, Colorado to discuss the structure and terms of a possible merger. On the same day, Thompson & Knight delivered to Haynes and Boone a revised draft of the proposed merger agreement and Cano management continued its due diligence review of Resaca's operations. Resaca management also resumed its due diligence review of Cano's operations.

On September 10, 2009, Mr. Bryan and other Resaca officers met with some of Cano's directors to discuss the terms of a possible merger. Mr. Bryan and the other Resaca officers also met with Cano's management to discuss governance of the combined company and potential business opportunities that would be available to the combined company.

On September 11, 2009, Resaca's management met with representatives of Madison Williams to discuss the terms of a possible merger with Cano, including the exchange ratio.

On September 14 and 15, 2009, representatives of Cano and Resaca management, together with their outside counsel, held calls to discuss the optimum structure of the transaction in light of the companies' respective valuations and the redemption rights that could be available to Cano's preferred stockholders. On September 16, 2009, a team of Cano executives visited Resaca's offices to conduct further due diligence.

The Cano board met on September 17, 2009 to discuss the status of the Resaca transaction. Management briefed the board on the progress of due diligence and the major business points still at issue. The board established a strategic initiatives and pricing committee made up of Messrs. Johnson, Smith and Pully to negotiate with Resaca and the other bidder, evaluate any other potential strategic transactions and serve as a pricing committee in the event Cano needed to move forward with an equity offering. Also on that day, the other bidder advised Cano that it was formally terminating discussions of a possible merger or rights offering with Cano.

On September 18, 2009, Cano and Resaca management, together with their respective legal and financial advisors, discussed by phone various structural and business issues. These discussions continued on September 21 at a meeting in Houston where the parties reached agreement that after the merger, Cano would become a subsidiary of Resaca and Resaca would become listed on the NYSE Amex. The parties also agreed that they would seek the waiver by Cano's preferred stockholders of redemption and certain other rights that might be available to the preferred stockholders as a result of the agreed-upon merger structure, and that if such a waiver could not be obtained, the agreed-upon merger structure would not be viable. The parties determined to approach D.E. Shaw Laminar Portfolios, L.L.C., Cano's largest preferred stockholder, subject to appropriate confidentiality safeguards, to seek support for the merger transaction. On September 22, 2009, Cano entered into a confidentiality agreement with D.E. Shaw in anticipation of substantive discussions seeking D.E. Shaw's support of the merger transaction.

During the week of September 21, 2009, Cano and Resaca negotiated the terms of the merger agreement. These discussions included the scope of representations, warranties and covenants contained in the agreement, the operating restrictions imposed on each company during the period between signing and the closing of the merger, the parties' ability to consider other acquisition proposals and terminate the merger agreement to pursue such proposals, and the amount and circumstances under which a party would be obligated to pay the other a termination fee. During the course of these negotiations, the amount of the termination fee was reduced from $5 million to $3.5 million. The parties also discussed the proposed separation agreements between Cano and two of its executive officers.

On September 22, 2009, Resaca conducted a due diligence review of Cano's operations in Fort Worth, Texas.

On September 24, 2009, Cano's management and board representatives, Resaca's management, and their respective legal advisors had further discussions regarding unresolved business and contractual issues, including issues relating to the merger agreement and to the executive separation agreements. Messrs. Smith and Lendrum negotiated tentative resolutions of the remaining issues, including a tentative agreement on the exchange ratio to be used in the merger.

On September 25, 2009, Resaca's board met telephonically, together with Resaca executive management, its outside counsel, Haynes and Boone, and its financial advisor, Madison Williams, to review and approve the merger and the merger agreement. In advance of the meeting, the directors were provided with various documents, including copies of the draft merger agreement and a detailed written presentation from Madison Williams regarding its analysis of the merger. At the meeting, representatives of Haynes and Boone reviewed the terms of the merger agreement and other relevant legal matters, including the Resaca board's fiduciary duties with respect to its consideration of the proposed transaction. Management presented the results of its due diligence review of Cano, including a review of its outstanding litigation and insurance coverage. Management and Haynes and Boone also updated the directors on the status of discussions with D.E. Shaw and the status of negotiations regarding the Cano executive separation agreements. The Resaca board emphasized the importance of obtaining satisfactory executive separation agreements with Cano's Chief Executive Officer and Chief Financial Officer. Madison Williams presented its analysis of the pro forma financial and strategic impact on Resaca of the proposed merger. After lengthy discussion, the Resaca board unanimously approved the Merger and the Share Issuances, subject to resolution of the Cano executive separation agreements, and continued negotiation of the exchange ratio, and resolved to recommend both to Resaca's shareholders for approval pending the outcome of such matters.

On September 25, 2009, Cano's board met telephonically to review the status of the negotiations. In advance of the meeting, the directors were provided with various documents, including copies of the draft merger agreement and a detailed summary of the merger agreement. The directors were also provided with updated financial information regarding the merger prepared by RBC. Thompson & Knight advised the board regarding the board's fiduciary duties with respect to its consideration of the proposed transaction. At the meeting, the Cano board discussed the terms of the merger agreement and other relevant legal matters, the status of discussions with D.E. Shaw and the status of negotiations regarding the executive separation agreements. The Cano board emphasized the importance of obtaining the support of D.E. Shaw before signing the merger agreement. Following the meeting, Mr. Johnson and Mr. Pully had further discussions with D.E. Shaw regarding the merger, including the terms of the new Resaca preferred stock that would be issued in exchange for the Cano preferred stock. Also, Mr. Smith and another Cano director, Don Niemiec, had further discussions with Mr. Bryan and Mr. Lendrum regarding various outstanding issues, including the exchange ratio and issues relating to the executive separation agreements.

On September 26, 2009, the Cano board again met telephonically. Management and outside legal counsel updated the board on the changes that had been made to the merger agreement and the differences from the detailed summary provided by Thompson & Knight the day before. Management and outside counsel then advised the board on the status of the executive separation agreements, including the concessions being requested by Resaca, as well as the progress of discussions with D.E. Shaw. The board concluded that the company should seek a voting agreement from D.E. Shaw. After the board's discussions with management and RBC, it was determined that an equity offering would provide the Cano stockholders with less value than the potential merger with Resaca. The Cano board came to this conclusion primarily due to (i) the significant dilution any potential equity offering would likely have with respect to Cano's existing stockholders, given the then-current trading price of Cano common stock and Cano's financial position and (ii) constraints on the amount and timing of any equity offering by Cano imposed by the terms of the Cano preferred stock and SEC and NYSE Amex rules. Since no other potential strategic transactions had been presented to the strategic initiatives and pricing committee since its inception, other than potential transactions with Resaca and the other bidder, and since the board had determined not to proceed with an equity offering, the board terminated the committee. The Cano board then established a new executive committee comprised of Messrs. Smith, Pully and Niemiec to coordinate and conduct final negotiations with Resaca on behalf of Cano with respect to the merger agreement, the executive separation agreements, and the agreement with D.E. Shaw. The executive committee was also authorized to consider alternative transactions presented to Cano and, if necessary, act as a pricing committee of the Cano board for any equity offerings.

On September 28, 2009, members of the executive committee resumed discussions with D.E. Shaw regarding the conditions under which D.E. Shaw would agree to waive its right to request a cash redemption of its preferred stock upon the effectiveness of the merger. The executive committee then met with Mr. Bryan regarding proposed revisions to the terms of the preferred stock, including delaying the mandatory redemption date, reducing the conversion price, and providing the company with more flexibility to raise additional capital. Both Cano and Resaca discussed the proposed terms with their respective financial advisors, and further negotiated the impact that the revised Cano preferred stock terms should have on the exchange ratio in the merger.

On September 28, 2009, Resaca management notified the Resaca board of changes to the merger agreement, including the exchange ratio. The Resaca board was also consulted on the proposed revisions to the terms of the Cano preferred stock.

Later on September 28, the Cano board held a lengthy telephonic meeting to consider and tentatively approved the transaction. Management presented the results of its due diligence review of Resaca. RBC then presented its preliminary analysis regarding the exchange ratio in the merger, subject to further negotiation of the exchange ratio. The board was apprised of the few remaining issues, including finalizing the exchange ratio, the agreement with D.E. Shaw, and the separation agreements, and the Board expressed its inclination to approve the transaction subject to resolution of all of these matters.

On September 29, 2009, the executive committee negotiated and reached final agreement with D.E. Shaw and entered into a stock voting agreement under which D.E Shaw agreed to vote in favor of the Cano Series D Amendment (which if adopted would eliminate certain rights of the Cano preferred stockholders arising from the merger) and in favor of the merger. The stock voting agreement also set forth the terms of the Resaca preferred stock that would be issued in the merger in exchange for the Cano preferred stock. Also on September 29, the separation agreements for Messrs. Johnson and Daitch were finalized and Cano agreed to the final exchange ratio of 2.1 shares of Resaca common stock (0.42 shares as adjusted for the Reverse Stock Split) for each share of Cano common stock. Resaca management notified the Resaca board of this final agreement on the exchange ratio and the terms of the Resaca preferred stock, and received final approval to proceed with the merger.

Later on September 29, the Cano board met telephonically to formally consider and discuss the merger and related transactions. Management updated the board on the day's developments. RBC then reviewed with the Cano board of directors its financial analysis of the exchange ratio in the merger and rendered its oral opinion to the Cano board of directors, subsequently confirmed in writing, that based on RBC's experience as investment bankers, as of September 29, 2009 and subject to the various assumptions and limitations set forth in its opinion, the exchange ratio in the merger of 2.1 shares of Resaca common stock for each share of Cano common stock (which does not give effect to the Reverse Stock Split) was fair, from a financial point of view, to the holders of Cano common stock. The full text of RBC's written opinion, which sets forth material information relating to such opinion, including the assumptions made, matters considered and qualifications and limitations on the scope of review undertaken by RBC, is attached as Annex B to this proxy statement. For a more detailed discussion of RBC's opinion, please see " Opinion of Cano's Financial Advisor" beginning on page I-94. Following further deliberations, and after consideration of the factors described under " Cano's Reasons for the Merger," the board approved both the Cano Series D Amendment and the merger agreement unanimously (with the exception of Mr. Johnson, who abstained from both votes) and resolved to recommend both proposals to Cano's stockholders for approval.

On September 29, 2009, the merger agreement was signed by all parties. Before the opening of the U.K. and U.S. financial markets on the morning of September 30, 2009, Cano and Resaca issued a joint press release announcing the signing of the merger agreement.

Resaca's Reasons for the Merger and the Share Issuances

At their September 25, 2009 meeting, the members of the Resaca board of directors unanimously approved the merger. In consultation with its financial advisor, Madison Williams, the Resaca board believes that the merger agreement and the terms of the merger are in the best interests of Resaca and its shareholders. Therefore, the Resaca board recommends that Resaca's shareholders vote to approve the Merger and the Share Issuances. The Resaca Board continued to meet on September 28 and 29, 2009 to approve the final pricing and terms of the merger.

In reaching its recommendation, the Resaca board consulted with Resaca's management, as well as its financial and legal advisors, and considered the following material factors:

- ***Complementary Assets and Balanced Growth Opportunities.*** Resaca believes that the majority of the assets and operations of Cano are complementary to those of Resaca. Resaca and Cano have the same business strategy, which is the exploitation of known oil and gas reserves, including the use of secondary and tertiary recovery technologies. Resaca believes that Cano's long-term growth potential with its large undeveloped reserve base (PUDs) complements Resaca's near-term

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capacity to increase production (PDNPs). The merger also affords Resaca the ability to high grade the combined capital expenditure programs.

Significant Cost Savings and Efficiencies. Given the complementary nature of their operations, including complementary technical and operational staffs, Resaca expects that the merger will allow the combined company to take advantage of synergies which should result in significant cost savings. Resaca expects to reduce costs in the combined operations by approximately $4.5 $5.0 million in general and administrative expense and lease operating expense reductions over fiscal year 2009 by consolidating corporate headquarters, eliminating duplicative staff and expenses, realizing operating expense efficiencies and benefiting from other cost savings.

Near-Term Low Risk Production Enhancement. Resaca believes that the merger will allow it to increase its hydrocarbon production by 10-20% by applying proven engineering applications to identified prospects.

Strategic Consistency. Both Resaca and Cano are focused on exploitation of known oil and gas reserves and are engineering driven companies with limited exploration risk. Both companies have similar asset bases with mature, long-life oil production profiles with secondary and tertiary potential. Resaca believes there is significant CO_2 recovery potential in both companies' properties.

More Efficient Access to Capital. Resaca believes that the merger will provide the combined company with more efficient access to capital at a lower cost than either Resaca or Cano have on a standalone basis. There is very little overlap in Cano and Resaca's institutional stockholder bases providing the combined company with a greater institutional float and awareness in the market. With the approval of the Merger, the Share Issuances and the Reverse Stock Split, Resaca will have a dual listing on the AIM and the NYSE Amex. Access to both U.S. and European investor bases and increased size of the combined company should benefit Resaca with increased (i) liquidity and trading volume, (ii) awareness of Resaca, and (iii) access to capital (debt and equity).

In reaching its decision to recommend the merger to its shareholders, the Resaca board of directors also considered a number of additional factors, including:

its discussions with Resaca's management concerning the results of Resaca's investigation of Cano, including with respect to litigation matters, and the mechanisms by which Resaca's and Cano's debt would be addressed in and after the merger;

the terms of the merger agreement, the structure of the transaction, including the conditions to each party's obligation to complete the merger, and the ability of the Resaca board of directors to terminate the agreement under certain circumstances;

the ability of Cano to obtain the votes necessary to approve the Cano Series D Amendment;

the ability of Resaca and Cano to complete the merger, including their ability to obtain the necessary regulatory approvals and their obligations in connection with obtaining those approvals;

the merger's structure, which is expected to constitute a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

information concerning the financial condition, results of operations, prospects and businesses of Resaca and Cano provided by management of the companies, including the respective companies' cash flows from operations, recent performance of common stock and the ratio of Resaca common stock price to Cano common stock price over various periods, as well as current industry, economic and market conditions; and the strategic, operational and financial opportunities available to Resaca in the normal course of its business compared to those that might be available following the merger.

The Resaca board also considered certain risks and potential disadvantages associated with the merger, including:

Ongoing Cano Litigation. If the ongoing Cano litigation matters are not decided in a manner favorable for Cano, these results could have an adverse effect on the operations of the combined company.

Merger-Related Expenses. Resaca and Cano expect to incur approximately $6.5 million in charges and expenses as a result of the merger, which will reduce the amount of capital available to fund the combined company's operations.

Cash Flow from Operations. The merger may negatively affect the combined company's cash flow from operations and other financial measures and there are uncertainties in timing and execution with respect to the anticipated benefits of the merger.

Integration. The operations of the two companies may not be successfully integrated.

Lack of Expected Cost Savings. Expected cost savings may not be realized to the degree anticipated.

Satisfaction of Conditions to the Merger. The time and resources required to complete the merger and the risk that the merger might not be completed as a result of a failure to satisfy the conditions to the merger agreement.

Severance Obligations. The aggregate $2.9 million in severance payments ($1.9 million cash and $1 million in Resaca common stock) to S. Jeffrey Johnson, Chief Executive Officer of Cano, and Benjamin L. Daitch, Chief Financial Officer of Cano, decrease the available cash flow that the combined company will have following the merger to fund its operations.

Cano Preferred Stock. The existence of the Cano preferred stock and its rights, preferences, and privileges over the Cano common stock has a negative and dilutive impact on the Resaca shareholders.

Termination Fee. The possibility that Resaca could be required to pay a $3.5 million termination fee in certain circumstances, which would decrease the available cash flow for Resaca should the merger not occur.

Reverse Stock Split. The risks inherent in the Reverse Stock Split could negatively impact the combined company's stock price and shareholder value.

Having considered these factors and the risks discussed under "Risk Factors" beginning on page I-54, the potential benefits of the merger outweigh these considerations in the judgment of the Resaca board. The foregoing discussion of the information and factors that were given weight by the Resaca board is not intended to be exhaustive, but it is believed to include all material factors considered by the Resaca board. Projections for Cano that Cano provided to Resaca were not material to the Resaca board's decision. The Resaca board of directors did not reach any specific conclusion with respect to any of the factors considered and instead conducted an overall analysis of such factors and determined that, in the aggregate, the potential benefits considered outweighed the potential risks or possible negative consequences of approving the Merger and the Share Issuances, the Reverse Stock Split and the Incentive Plan Amendment.

In view of the variety of factors considered in connection with its evaluation of the proposed merger and the terms of the merger agreement, the Resaca board did not deem it practicable to quantify or assign relative weights to the factors considered in reaching its conclusion. In addition, individual Resaca directors may have given different weights to different factors.

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Recommendation of the Resaca Board of Directors

At its meeting on September 25, 2009, after due consideration, the Resaca board of directors unanimously adopted resolutions:

- determining that the merger agreement, the merger and the issuance of Resaca common stock and Resaca preferred stock, both in accordance with the terms of the merger agreement, and the other transactions contemplated thereby are advisable and in the best interests of Resaca and its shareholders;

- approving and adopting the merger agreement and approving the merger, the issuance of Resaca common stock and Resaca preferred stock and the other transactions contemplated by the merger agreement; and

- recommending that the Resaca shareholders vote "FOR" the approval of the Merger, the Share Issuances and the Reverse Stock Split.

On April 1, 2010, after due consideration, the Resaca board of directors unanimously adopted resolutions:

- determining that an amendment to the Incentive Plan to (i) simultaneously with the merger and following the Reverse Stock Split, effect an increase to the number of shares of Resaca common stock reserved for issuance under the Incentive Plan by 4,000,000 shares to an aggregate amount of 5,845,175 shares authorized for issuance, subject to any shares previously granted, of grants and awards under the Incentive Plan following the completion of the merger and the Reverse Stock Split, in accordance with the terms of Incentive Plan Amendment and (ii) prohibit the repricing of any award granted under the Incentive Plan, is advisable and in the best interests of Resaca and its shareholders;

- approving and adopting the Incentive Plan Amendment and approving (i) the increase of an additional 4,000,000 shares of Resaca common stock (after giving effect to the Reverse Stock Split) to the number of shares of Resaca common stock reserved for issuance under the Incentive Plan and (ii) the prohibition of any repricing of any award granted under the Incentive Plan; and

- recommending that the Resaca shareholders vote "FOR" the approval of the Incentive Plan Amendment.

Cano's Reasons for the Merger

On September 29, 2009, Cano's board unanimously determined that the merger is fair to, and in the best interests of, Cano and its stockholders, approved and adopted the merger agreement and the merger, and resolved to recommend that Cano stockholders vote "FOR" approval of the merger agreement and the merger.

In reaching its decision, Cano's board consulted with Cano's management, Cano's outside legal advisors, and RBC, Cano's financial advisor. In addition to those reasons stated above under "The Merger Resaca's Reasons for the Merger and the Share Issuances," Cano's board of directors believes the merger is desirable for the following principal reasons:

- the Cano board's confidence in the ability of Resaca's Chairman of the Board, J.P. Bryan, to lead the combined company and continue to enhance stockholder value;

- the Cano board's consideration of Cano's financial and operational position, taking into account current commodity prices and other current industry, economic and market conditions;

the potential dilution to Cano's stockholders that would result from raising the capital necessary for Cano to continue to grow its operations;

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- Cano's liquidity position and the likelihood that Cano would be out of compliance with the financial ratio covenants contained in its credit agreements at December 31, 2009;

- a review of other strategic alternatives potentially available to Cano (including other potential transactions) and their relative potential advantages and disadvantages compared to those associated with the merger;

- the results of the business, legal and financial due diligence investigations of Resaca conducted by Cano's management and legal and financial advisors;

- the results of the engineering due diligence investigations of Resaca conducted by Cano's management;

- the terms of the merger agreement and the structure of the transaction, including the conditions to each company's obligations to complete the merger;

- the fact that under the terms of the merger agreement three members of Cano's board would join the Resaca board of directors following the merger;

- the fact that the merger consideration represented a premium of approximately 32% premium over the 30-day volume weighted average price of Cano shares for the period ending September 28, 2009;

- the opinion of RBC rendered orally to the Cano board of directors on September 29, 2009 and subsequently confirmed in writing, that based on RBC's experience as investment bankers, as of such date and subject to the various assumptions and limitations set forth in its opinion, the exchange ratio in the merger of 2.1 shares of Resaca common stock for each share of Cano common stock (which does not give effect to the Reverse Stock Split) is fair, from a financial point of view, to the holders of Cano common stock. The full text of RBC's written opinion, which sets forth material information relating to such opinion, including the assumptions made, matters considered and qualifications and limitations on the scope of review undertaken by RBC, is attached as Annex B to this proxy statement. **RBC's opinion was provided for the information and assistance of the Cano board of directors in connection with its consideration of the merger and was not on behalf of any other entity or person**. For a more detailed discussion of RBC's opinion, please see " Opinion of Cano's Financial Advisor" beginning on page I-94;

- the fact that holders of Cano common stock would own approximately 50% of the combined company (prior to completion of the offering);

- the merger's structure, which is expected to constitute a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code; and

- presentations by, and discussions with, senior executives of Cano and representatives of its outside legal counsel regarding the terms and conditions of the merger agreement.

Cano's board also identified and considered a number of potentially negative factors and risks in its deliberations concerning the merger, including but not limited to:

- the risk that the merger might not be completed as a result of a failure to satisfy one or more conditions to the merger;

the risk that the operations of the two companies may not be successfully integrated;

the size of the premium represented by the merger consideration relative to the pre-announcement value of Cano common stock might be reduced or eliminated by a decline in Resaca common stock price through the time the merger is consummated;

the risk associated with the business, legal and financial due diligence required in connection with the analysis of a non-SEC reporting company;

- the limitations on Cano's ability to solicit other offers as well as the possibility that it could be required to pay a $3.5 million termination fee in certain circumstances, which would decrease the available cash flow of Cano should the merger not occur; and

- other matters described under the caption "Risk Factors" beginning on page I-54.

After deliberation, the Cano board of directors concluded that, on balance, the potential benefits of the merger to Cano stockholders outweighed these risks and potential disadvantages.

Subsequent to the execution and delivery of the merger agreement, the Cano board of directors and members of its executive committee periodically discussed the merger in anticipation of the proxy statement being mailed to the Cano stockholders. In particular, the Cano board and the executive committee, from time to time, discussed that, given events occurring due to the passage of time and other events not considered by RBC at the time of the delivery of its fairness opinion to the Cano board of directors as discussed in this proxy statement, RBC's opinion does not take into account the totality of information that is now available, including: (1) Cano's sale in January 2010 of certain of its Texas Panhandle assets, (2) the proposed Reverse Stock Split upon consummation of the merger, (3) the specifics of the proposed common stock offering by Resaca to properly capitalize the combined company or any potential dilution to Cano common stockholders resulting from the antidilution protections to be provided to the recipients of Resaca preferred stock in connection with the offering, (4) the terms of the refinancing under the New Facility and (5) the December 31, 2009 report of Haas on the combined company's oil and gas reserves. As a result of these discussions, the Cano board determined that RBC's opinion with respect to the fairness of the exchange ratio still reflects meaningful and helpful information and a reasonable basis to continue to support the merger despite these events not being considered for purposes of the opinion. The Cano board made this determination because it and its executive committee had been regularly updated by Cano management and Resaca management on the terms of each of these developments throughout these processes and believe that: (i) the Cano Texas Panhandle asset sale involved an immaterial amount of Cano's properties, (ii) the Reverse Stock Split ultimately has no impact on the value of the shares of Resaca common stock or Resaca preferred stock to be received by Cano stockholders, and that the implementation of the Reverse Stock Split is necessary for the combined company to achieve a NYSE Amex listing and will provide the combined company with a per share price that would likely be more attractive to institutional investors, (iii) the dilution resulting from the offering will be shared pro rata by the Cano stockholders and the Resaca shareholders, (iv) the commitment letter and the New Credit Agreement relating to the New Facility contains terms which are in line with current market terms for similarly situated companies and (v) the information contained in the Haas mid-year reserve report did not reflect a material change in the value of the combined company's reserves. In addition, the Cano board believes that the time, expense and potential delay associated with obtaining an updated fairness opinion, in light of its views on these developments, outweighs any incremental value that an updated fairness opinion would provide and could potentially jeopardize the timing and ultimate consummation of the merger.

The foregoing discussion of the information and factors considered by the Cano board of directors in making its decision is not intended to be exhaustive, but includes the material factors considered by the Cano board of directors. In view of the variety of material factors considered in connection with its evaluation of the merger, the Cano board of directors did not find it practicable to, and did not, quantify or otherwise assign relative or specific weight to any of these factors, and individual directors may have given different weight to different factors. Instead, the Cano board of directors made its determination based on the totality of the information presented to it.

The above description of the Cano board of directors' considerations relating to the merger is forward-looking in nature. This information should be read in light of the factors discussed above under "Cautionary Statements Concerning Forward-Looking Statements" beginning on page I-52.

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Recommendation of the Cano Board of Directors

At its meeting on September 29, 2009, after due consideration, the members of the Cano board of directors, who voted (Mr. Johnson, Cano's Chief Executive Officer, abstained from voting), unanimously adopted resolutions:

- determining that the merger agreement, the merger, in accordance with the terms of the merger agreement, and the other transactions contemplated thereby are advisable and in the best interests of Cano and its stockholders;
- approving and adopting the merger agreement and approving the merger and the other transactions contemplated by the merger agreement; and
- recommending that the Cano stockholders vote "FOR" the adoption of the merger agreement.

In considering the recommendation of Cano's board of directors with respect to the merger, you should be aware that some officers and directors of Cano have interests in the merger that may be different from, or in addition to, the interests of Cano stockholders generally. Cano's board of directors was aware of these interests and considered them in approving the merger agreement and the merger. For more information on these interests, see " Interests of Certain Persons in the Merger" beginning on page I-107.

Analysis of Financial Advisor to the Resaca Board of Directors

Madison Williams acted as financial advisor to Resaca in connection with the proposed merger. Madison Williams was selected by the Resaca board of directors based on Madison Williams' qualifications, reputation and experience in the valuation of businesses and securities in connection with mergers and acquisitions, in general, and oil and gas transactions in particular. Resaca engaged Madison Williams to (a) review the business and operations of Resaca and Cano and Cano's operations, historical performance, and projected financial condition, (b) evaluate and recommend financial terms with respect to the proposed merger, (c) assist Resaca in due diligence related to Cano, (d) analyze the pro forma financial and strategic impact on Resaca of the proposed merger, (e) advise Resaca as to the timing, structure, proposed purchase price, and form of consideration of the proposed merger, (f) assist in negotiating the financial aspects of the proposed merger under Resaca's guidance, and (g) provide such other financial advisory and investment banking services as are normal and customary for similar transactions and as mutually agreed upon by Resaca and Madison Williams. Resaca did not request, and Madison Williams has not provided Resaca, with a written fairness opinion in connection with the merger.

Madison Williams reviewed the merger agreement and held discussions with certain members of the management of Resaca and Cano with respect to the financial aspects of the proposed merger, the past and current business operations of Resaca and Cano, the financial condition and future prospects and operations of Resaca and Cano, the effects of the proposed merger on the financial condition and future prospects of Resaca and certain other factors Madison Williams believed necessary or appropriate to its analysis of the pro forma financial and strategic impact on Resaca of the proposed merger. Madison Williams presented its analysis of the merger and its impact to the Resaca board of directors at its meeting held on September 25, 2009 and consulted with the Resaca board on September 28 and 29, 2009. At such times, the Resaca board reviewed Madison Williams' analysis with Madison Williams, and Madison Williams addressed questions raised by the Resaca board.

Madison Williams' financial analysis was only one of many factors considered by the Resaca board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the Resaca board or management with respect to the merger or the exchange ratio.

Madison Williams has acted as exclusive financial advisor to Resaca with respect to the proposed merger. Under the terms of its engagement, Resaca paid Madison Williams a retainer fee of $75,000

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upon execution of an engagement letter dated May 15, 2009, and in addition agreed to pay Madison Williams a transaction fee of $700,000 for services rendered in connection with the merger, which will be paid only if the merger is successfully completed. In the event that the merger agreement is terminated, Madison Williams is entitled to receive 10% of any breakup fee paid to Resaca as a result of such termination, upon which there is no dollar cap on Madison Williams' share of any termination fees. Resaca has also agreed to reimburse Madison Williams for its reasonable expenses, including fees and disbursements of its counsel, and to indemnify Madison Williams against liabilities, including liabilities under the federal securities laws, relating to or arising out of its engagement as exclusive financial advisor to Resaca.

Madison Williams, as part of its investment banking services, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, strategic transactions, corporate restructurings, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

In the ordinary course of their businesses, Madison Williams and its affiliates may actively trade the debt and equity securities of Resaca and Cano for their own accounts and for the accounts of customers and, accordingly, may at any time hold long or short positions in such securities.

Opinion of Cano's Financial Advisor

Cano retained RBC to act as its financial advisor with respect to a possible merger, sale or other business combination of Cano with Resaca. In connection with that engagement, the Cano board of directors requested that RBC evaluate the fairness, from a financial point of view, of the exchange ratio to be received for the shares of Cano common stock in the merger. On September 29, 2009, RBC rendered its oral opinion to the Cano board of directors, which opinion was subsequently confirmed in writing, that based on RBC's experience as investment bankers, as of that date and subject to the various assumptions and limitations set forth in its opinion, the exchange ratio in the merger of 2.100 shares of Resaca common stock for each share of Cano common stock (which does not give effect to the Reverse Stock Split) is fair, from a financial point of view, to the holders of Cano common stock.

The full text of RBC's written opinion, which sets forth material information relating to such opinion, including the assumptions made, matters considered and qualifications and limitations on the scope of review undertaken by RBC, is attached as Annex B to this proxy statement. This summary of RBC's opinion is qualified in its entirety by reference to the full text of the opinion. We urge you to read RBC's opinion carefully in its entirety.

RBC's opinion was provided for the information and assistance of the Cano board of directors in connection with its consideration of the merger. RBC's opinion did not address the underlying business decision by Cano to engage in the merger or any other transaction related thereto or the relative merits of the merger compared to any alternative business strategy or transaction in which Cano might engage. RBC expressed no opinion and made no recommendation to any stockholder of Cano or any shareholder of Resaca or any other person as to how such stockholder or shareholder or other person should vote or act with respect to any matter related to the merger.

RBC's opinion was intended for the use and benefit of the Cano board of directors. RBC's opinion may not be used for any other purpose without the prior written consent of RBC except as required by law. RBC's opinion, together with the analyses performed by RBC in connection with its opinion and reviewed with the Cano board of directors, were only one of the many factors taken into consideration by the Cano board of directors in making its determination to approve the merger and enter into the merger agreement. RBC has consented to the use of RBC's opinion in this proxy statement, however, RBC has not assumed any responsibility for the form or content of this proxy statement, other than RBC's opinion itself.

RBC's opinion addressed solely the fairness of the exchange ratio, from a financial point of view, to the holders of shares of Cano common stock and did not in any way address other terms or conditions of the merger or the merger agreement, including, without limitation, the financial or other terms of any other agreement contemplated by, or to be entered into in connection with, the merger agreement. RBC did not express any opinion as to the prices at which Cano common stock or Resaca common stock have traded or would trade at any time, including following the announcement or consummation of the merger, regardless of whether or not the merger is consummated. Further, in rendering its opinion, RBC expressed no opinion about the fairness of the amount or nature of the compensation (if any) to any of the officers, directors or employees of any party to the merger, or class of such persons, relative to the exchange ratio or otherwise. RBC did not express any opinion as to any tax or other consequences that might result from the merger, nor did RBC's opinion address any legal, tax, regulatory or accounting matters, as to which RBC understood that Cano had obtained such advice as it deemed necessary from qualified professionals.

In arriving at its opinion, RBC was not authorized to solicit, and did not solicit, interest from any party with respect to a merger or other business combination transaction involving Cano or any of its assets.

In rendering its opinion, RBC assumed and relied upon the accuracy and completeness of all the information that was reviewed by RBC, including all of the financial, legal, tax, operating and other information provided to or discussed with RBC by or on behalf of Cano or Resaca (including, without limitation, the financial statements and related notes thereto of each of Cano and Resaca), and RBC did not assume responsibility for independently verifying, and did not independently verify, such information. RBC assumed that all forecasts prepared by or on behalf of Cano or Resaca, as the case may be (including forecasts prepared Cano with respect to certain potential benefits of the merger expected to be realized from the merger and the timing of their occurrence), were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the future financial performance of Cano or Resaca (as the case may be), respectively, as standalone entities (or, in the case of the benefits of the merger, as a combined company). RBC expressed no opinion as to any such forecasts or the assumptions upon which they were based. Without limiting the foregoing, RBC also assumed that the Resaca preferred stock would remain outstanding from and after the effective time of the merger on the same terms and conditions as those of the Cano preferred stock as of the date of RBC's opinion.

In rendering its opinion, RBC did not assume any responsibility to perform, and did not perform, an independent evaluation or appraisal of any of the assets or liabilities of Cano or Resaca, and RBC was not furnished with any such valuations or appraisals (except that a reserve report of Cano's reserves and a reserve report of Resaca's reserves, each as of June 30, 2009, were provided to Resaca and Cano, respectively, and RBC as part of the merger due diligence process). RBC did not assume any obligation to conduct, and did not conduct, any physical inspection of the property or facilities of Cano or Resaca. RBC did not investigate, and made no assumption regarding, any litigation or other claims affecting Cano or Resaca.

In rendering its opinion, RBC was not aware of the proposed Reverse Stock Split and did not consider any effect of the Reverse Stock Split, including any adverse effect that may result on the liquidity of the Resaca common stock issued in the merger that may result as a result of the decrease in the number of shares of Resaca common stock outstanding as a result of the Reverse Stock Split. In addition, in rendering its opinion, RBC was not aware of the offering (including any potential dilution resulting from the antidilution protections to be provided to the recipients of the Resaca preferred stock in connection with the offering), the refinancing under the New Facility, the January 2010 sale of certain of Cano's Texas Panhandle assets or the terms of these transactions or the information contained in the December 31, 2009 Haas reports, each of which has arisen from events following the date of RBC's opinion, and RBC did not consider any effect of the offering (including the potential dilution from the antidilution protections), the refinancing under the New Facility, the Cano Texas Panhandle asset sale or the December 31, 2009 Haas reports for purposes of its opinion.

In rendering its opinion, RBC also assumed that the merger would be consummated in accordance with the terms of the merger agreement, without waiver, modification or amendment of any material term, condition or agreement and that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the merger, no delay, limitation, restriction or condition would be imposed that would have an adverse effect on Cano or Resaca or the contemplated benefits of the merger. RBC further assumed that all representations and warranties set forth in the merger agreement were and would be true and correct as of the date or the dates made or deemed made and that all parties to the merger agreement would comply with all covenants of such party thereunder. RBC further assumed that the executed version of the merger agreement would not differ, in any respect material to its opinion, from the latest draft of the merger agreement provided to RBC on September 29, 2009.

RBC noted that the merger agreement also provides, among other things, that (i) each of the holders of any restricted shares of Cano common stock shall execute an orderly market deed (as such term is defined in the merger agreement), which orderly market deed shall, among other things, restrict the right of such holder to sell shares of Resaca common stock received in the merger; and (ii) certain directors of Cano shall be elected as members of the Resaca board of directors as of the closing of the merger. In rendering its opinion, RBC did not give any special consideration to any of the factors noted in the immediately preceding sentence. In addition, in rendering its opinion, RBC did not consider any effects of (A) any shares of Cano common stock held by Cano as treasury shares, or (B) any share of Cano common stock held by any holder of Cano common stock who does not vote in favor of the merger (or consent thereto in writing) and who is entitled to demand and properly demands a judicial appraisal of the fair value of such holder's shares pursuant to, and who complies in all respects with, the provisions of Section 262 of General Corporation Law of the State of Delaware, or (C) any shares of Cano common stock held by Resaca or any of its affiliates, if any.

RBC's opinion spoke only as of the date it was rendered, was based on the conditions as they existed and information which RBC had been supplied as of such date, and was without regard to any market, economic, financial, legal or other circumstances or events of any kind or nature which may exist or occur after such date. RBC has not undertaken to reaffirm or revise its opinion or otherwise comment on events occurring after the date of its opinion and does not have an obligation to update, revise or reaffirm its opinion. Unless otherwise noted, all analyses were performed based on market information available as of September 28, 2009, the last trading day preceding the date of RBC's opinion. For additional discussion of considerations regarding the timing of the shareholder meetings and consummation of the merger relative to the date of RBC's opinion, please see "Risk Factors The fairness opinion obtained by Cano from its financial advisor will not reflect changes in circumstances between the date of the merger agreement and the dates of either the shareholder meetings or the consummation of the merger" beginning on page I-58.

For the purposes of rendering its opinion, RBC undertook such review and inquiries it deemed necessary or appropriate under the circumstances, including the following:

- RBC reviewed the financial terms of the latest draft of the merger agreement provided to RBC on September 29, 2009;

- RBC reviewed and analyzed certain publicly available financial and other data with respect to Cano and Resaca and certain other relevant historical operating data relating to Cano and Resaca made available to RBC from published sources and from the internal records of Cano and Resaca, respectively;

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- RBC reviewed financial projections and forecasts of Cano prepared by Cano's management and financial projections and forecasts of Resaca, including the combined company after giving effect to certain potential benefits of the merger expected to be realized from the merger, prepared by Resaca's management;

- RBC conducted discussions with members of the senior managements of Cano and Resaca with respect to the business prospects and financial outlook of Cano and Resaca as standalone entities as well as the strategic rationale and potential benefits of the merger;

- RBC reviewed the reported prices and trading activity for Cano common stock and Resaca common stock; and

- RBC performed other studies and analyses as it deemed appropriate.

In arriving at its opinion, in addition to the review, inquiries and analyses listed above, RBC performed the following analyses:

- RBC performed a valuation analysis of Cano as a standalone entity, using trading price, comparable company, precedent transaction and net asset value with respect to Cano;

- RBC performed a valuation analysis of Resaca as a standalone entity, using trading price, comparable company and net asset value with respect to Resaca;

- RBC performed a relative valuation analysis of Cano as a standalone entity relative to the most recent trading price of Resaca common stock as a standalone entity as of September 28, 2009, using comparable company, precedent transaction and net asset value with respect to Cano;

- RBC performed a historical exchange ratio analysis of Cano common stock relative to Resaca common stock, using historical trading price;

- RBC performed a relative contribution analysis; and

- RBC reviewed the pro forma transaction impact of each of Resaca and Cano on the pro forma company after the merger.

In connection with the rendering of its opinion to the Cano board of directors, RBC reviewed with the Cano board of directors the analyses listed above and other information material to the opinion.

Set forth below is a summary of the significant analyses performed by RBC and reviewed with the Cano board of directors on September 29, 2009 in connection with the delivery of RBC's opinion. The financial analyses summarized below include information presented in tabular format. To fully understand the summary of the analyses used by RBC, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the analysis. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of RBC's financial analyses. **None of the analyses presented in this section were prepared taking into account the Reverse Stock Split, and none of the analyses have been adjusted to reflect or give effect to the Reverse Stock Split**.

In addition, for all purposes of its analyses summarized in this section, RBC defined enterprise value, which we refer to in this section as EV, for Resaca and Cano as fully diluted equity value (including the impact of any vested or outstanding options and restricted stock, as applicable) as of September 28, 2009, plus total debt, preferred stock (at liquidation value) and minority interest less cash, cash equivalents and marketable securities (other than restricted cash, where identified as such). RBC used the balance sheet for Resaca and Cano as of June 30, 2009, the latest balance sheet provided to RBC, to determine the value of these items, other than market prices.

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For purposes of the analyses summarized below, RBC calculated the "implied value" of the exchange ratio to be equal to the value of 2.100 shares of Resaca common stock as of the close of trading on September 28, 2009, the last trading day preceding the date of RBC's opinion. Based upon the closing price per share of Resaca common stock of £0.50, or $0.79 based on the USD-GBP exchange rate of 1.5882 per Bloomberg on September 28, 2009, which we refer to in this section as the September 28 Resaca closing price, and the exchange ratio in the merger of 2.100 shares of Resaca common stock per share of Cano common stock, RBC calculated an implied value of the exchange ratio of $1.67 per share of Cano common stock, which we refer to in this section as the implied merger consideration value, to be used for purposes of certain of the analyses performed.

Resaca Standalone Valuation Analysis

RBC performed analyses of the value of Resaca to determine the reasonableness of the September 28 Resaca closing price of $0.79 to determine whether it could be used for purposes of analyzing the value of the exchange ratio in the merger.

Comparable Company Analysis. RBC prepared a comparable company analysis of certain implied multiples of Resaca in relation to the corresponding implied multiples of a group of publicly-traded companies that RBC deemed for purposes of its analysis to be comparable to Resaca.

RBC reviewed the relevant metrics of the following publicly-traded exploration and production companies (with their metrics adjusted, as applicable, in one case, to reflect a recently completed asset sale in July 2009):

- Clayton Williams Energy, Inc.
- RAM Energy Resources, Inc.
- Rex Energy Corporation
- Gulfport Energy Corporation

Although none of the selected companies is directly comparable to Resaca, the companies included were chosen because they are publicly traded companies with operations that for purposes of analysis may be considered similar to certain operations of Resaca.

In this analysis, RBC compared the enterprise value of Resaca expressed as a multiple of Resaca's calendar year 2010 projected production and risked reserves as of June 30, 2009. Projected production was based on Resaca management projections in the case of Resaca and, in the case of the comparable companies, on RBC Equity Research estimates, where available, or in one case where RBC Equity Research was not available, comparable Wall Street research. Unrisked reserves were obtained from the reserve report of Resaca's reserves as of June 30, 2009 in the case of Resaca and, in the case of the comparable companies, on the reserves most-recently disclosed in SEC filings. Given that Resaca and selected comparable companies were in a developmental stage and have a significant amount of undeveloped and non-producing reserves, RBC, based on its understanding of the market valuation for such companies, risk-adjusted the reserves of these companies to more appropriately reflect the market valuation of these companies. RBC risk-adjusted reserves as follows:

- *Resaca:* 100% weighting to PDP, 75% to PDNP and 25% to PUD reserves, which we refer to collectively as "Risked Reserves."
- *Comparable companies:* 90% weighting to PDP and PDNP and 50% to PUD reserves, which we refer to collectively as "Risked Reserves."

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The following table presents, as of September 28, 2009, Resaca's implied EV-to-Production and EV-to-Risked Reserves, and the corresponding multiples for the comparable companies:

	Comparable Companies				Resaca September 28 Resaca Closing Price
	Min.	Mean	Median	Max.	
EV as a multiple of:					
2010E Production (Boe/d)	$ 43,733	$ 63,174	$ 58,251	$ 92,461	$ 97,917
Risked Reserves (Boe)	$ 12.67	$ 20.09	$ 22.92	$ 24.67	$ 10.64

For purposes of its analysis, RBC defined enterprise value for comparable companies as fully diluted market capitalization as of September 28, 2009 plus net debt (defined by RBC as total debt less cash (other than restricted cash, where identified as such) and cash equivalents, and preferred stock and minority interests, where applicable), using latest publicly-available balance sheet data.

Based on the foregoing, RBC determined estimated EV-to-calendar year 2010 estimated Production multiples of $45,000 to $90,000 and EV-to-Risked Reserves as of June 30, 2009 of $9.50 to $15.00. RBC applied such ranges to Resaca's calendar year 2010 estimated Production of 1,108 Boe/d and Risked Reserves as of June 30, 2009 of 8,030 MBoe, respectively. RBC derived an implied value per share range for Resaca of $0.19 to $0.70 based on EV-to-calendar year 2010 estimated Production, and $0.46 to $0.92 based on EV-to-Risked Reserves as of June 30, 2009. RBC noted that the September 28 Resaca closing price was $0.79 per share of Resaca common stock.

Net Asset Value Analysis of Resaca. RBC also performed a net asset value analysis of Resaca. RBC calculated the present value of the field-level before-tax future cash flows that Resaca could be expected to generate from its existing base of proved reserves, based on a third-party engineering report as of June 30, 2009 and assuming the spot natural gas and crude oil prices of $3.80 per Mcf and $69.31per barrel, respectively, risk-adjusted as follows:

- 100% weighting to PDP;
- 75% weighting to PDNP; and
- 25% weighting to PUD reserves.

RBC discounted these field-level before-tax cash flows at 10% in order to estimate Resaca's gross asset value. RBC then calculated the net asset value for Resaca by adjusting gross asset value for working capital, debt and cash. Net asset value per share for Resaca, using a fully diluted number of shares for Resaca, adjusted for any in-the-money vested options outstanding, was determined to be $0.80. RBC then applied a factor of +/- 10% to obtain a reasonable range of net asset values per share for Resaca, yielding a range of $0.72 and $0.88 for Resaca. RBC noted that the September 28 Resaca closing price was $0.79 per share of Resaca common stock.

Based on the aforementioned analyses, RBC determined that the September 28 Resaca closing price of $0.79 reflected a reasonably adequate valuation of Resaca to be used for purposes of analyzing the value of the exchange ratio in the merger.

Cano Standalone Valuation Analysis

Comparable Company Analysis. RBC prepared a comparable company analysis of certain implied multiples of Cano in relation to the corresponding implied multiples of a group of publicly-traded companies that RBC deemed for purposes of its analysis to be comparable to Cano.

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RBC reviewed the relevant metrics of the following publicly-traded E&P companies (with their metrics adjusted, as applicable, in one case, to reflect a recently completed asset sale in July 2009):

- Clayton Williams Energy, Inc.
- RAM Energy Resources, Inc.
- Rex Energy Corporation
- Gulfport Energy Corporation

Although none of the selected companies is directly comparable to Cano, the companies included were chosen because they are publicly traded companies with operations that for purposes of analysis may be considered similar to certain operations of Cano.

In this analysis, RBC compared the enterprise value of Cano implied by the closing price per share of Cano common stock of $1.02 on September 28, 2009, which we refer to in this section as the September 28 Cano closing price, expressed as a multiple of Cano's calendar year 2010 projected Production and risked reserves as of June 30, 2009. Projected production was based on Cano management projections in the case of Cano and, in the case of the comparable companies, on RBC Equity Research estimates, where available, or in one case where RBC Equity Research was not available, comparable Wall Street research. Unrisked Reserves were based on a third-party engineering report of Cano's reserves as of June 30, 2009 in the case of Cano and, in the case of the comparable companies, on the reserves most-recently disclosed in SEC filings. Given that Cano and selected comparable companies were in a developmental stage and have a significant amount of undeveloped and non-producing reserves, RBC, based on its understanding of the market valuation for such companies, risk-adjusted the reserves of these companies to more appropriately reflect the market valuation of these companies. For purposes of its analyses, RBC risk-adjusted the reserves as follows:

- *Cano:* 100% weighting to PDP, 75% to PDNP and 25% to PUD reserves, which we refer to collectively as "Risked Reserves."
- *Comparable companies:* 90% weighting to PDP and PDNP and 50% to PUD reserves, which we refer to collectively as "Risked Reserves."

The following table presents, as of September 28, 2009, Cano's implied EV-to-Production and EV-to-Risked Reserves, as determined on the basis of the September 28 Cano closing price, and the corresponding multiples for the comparable companies, as determined on the basis of their respective stock prices, for the periods reviewed by RBC in connection with its analysis:

	Comparable Companies				Cano September 28 Cano Closing Price
	Min.	**Mean**	**Median**	**Max.**	
EV as a multiple of:					
2010E Production (Boe/d)	$ 43,733	$ 63,174	$ 58,251	$ 92,461	$ 94,032
Risked Reserves (Boe)	$ 12.67	$ 20.09	$ 22.92	$ 24.67	$ 4.51

For purposes of its analysis, RBC defined EV for comparable companies as fully diluted market capitalization as of September 28, 2009 plus net debt (defined by RBC as total debt less cash (other than restricted cash, where identified as such) and cash equivalents, and preferred stock and minority interests, where applicable), using latest publicly-available balance sheet data.

Based on the foregoing, RBC calculated estimated EV-to-calendar year 2010 estimated Production multiples of $45,000 to $90,000 and EV-to-Risked Reserves as of June 30, 2009 of $6.00 to $10.00. RBC applied such ranges to Cano's calendar year 2010 estimated Production of 1,371 Boe/d and Risked Reserves as of June 30, 2009 of 19,249 MBoe, respectively. RBC derived an implied value per

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share range for Cano of $0.00 to $0.90 based on EV-to-calendar year 2010 estimated Production and $0.73 to $2.41 based on EV-to-Risked Reserves as of June 30, 2009. RBC noted that the implied merger consideration value in the merger was $1.67 per share of Cano common stock.

Precedent Transaction Analysis. RBC reviewed the financial terms of certain recent merger and acquisition transactions as reported in SEC filings, public company disclosures, other publicly-available sources and its internal RBC Richardson Barr database. RBC selected transactions announced year-to-date in 2009 where the target companies were involved in oil and gas exploration and production in either the Permian Basin or the Mid-Continent or Rockies regions. These transactions include:

Announcement Date	Buyer	Seller
9/21/09	Merit Management Partners I, L.P.	Petrohawk Energy Corp.
9/15/09	Apollo Global Management, LLC	Parallel Petroleum Corp.
8/31/09	Pioneer Southwest Energy Partners LP	Pioneer Natural Resources Company. (certain assets)
8/5/09	Linn Energy, LLC	Forest Oil Corporation (Certain assets)
8/2/09	Hicks Acquisition Company I	Resolute Natural Resources Company, LLC
7/17/09	Undisclosed acquiror	Breitburn Energy Partners, L.P. (certain assets)
Q2 2009	Undisclosed acquiror	LCS Production Company (certain assets)
6/30/09	Undisclosed acquiror	Pioneer Natural Resources Co. (certain assets)
6/29/09	Encore Acquisition Company	EXCO Resources, Inc. (certain assets)
6/29/09	Encore Energy Partners LP	Encore Acquisition Company (certain assets)
6/16/09	Seneca Resources Corporation	Ivanhoe Energy (USA) Inc. (certain assets)
5/20/09	Slawson Exploration Company, Inc.	Windsor Bakken LLC / Gulfport Energy Corporation
5/18/09	Encore Energy Partners LP	Encore Acquisition Company (certain assets)
5/5/09	Energen Resources Corporation	Range Resources Corp. (certain assets)
4/30/09	Apache Corp.	Marathon Oil Corp. (certain assets)
4/30/09	Undisclosed acquiror	Marathon Oil Corp. (certain assets)
1/9/09	Black Stone Minerals Company, L.P.	Certain assets

Although none of the selected precedent transactions involved businesses that are directly comparable to Cano's business, RBC determined that the operations of the target businesses involved in the selected transactions as a whole for purposes of analysis may be considered comparable to Cano's operations.

RBC reviewed the EV-to-last twelve month, which we refer to as LTM, production and EV-to-Risked Reserves of the selected precedent transactions. The results of these analyses were as follows:

	Comparable Companies			
	Min.	Mean	Median	Max.
EV as a multiple of:				
LTM Production (Boe/d)	$ 12,498	$ 65,826	$ 67,224	$ 131,694
Risked Reserves (Boe)	$ 8.58	$ 14.52	$ 12.48	$ 32.52

Based on the foregoing, RBC determined estimated EV-to-last twelve month production multiples of $60,000 to $90,000 and EV-to-Risked Reserves multiples of $7.00 to $11.00. RBC applied such ranges to Cano's last twelve months production as of June 30, 2009 of 1,201 Boe/d and Risked Reserves as of June 30, 2009 of 19,249 MBoe, respectively. RBC derived an implied value per share range of Cano of $0.00 to $0.57 based on EV-to-last twelve month production and $1.15 to $2.83 based

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on EV-to-Risked Reserves. RBC noted that the implied merger consideration value in the merger was $1.67 per share of Cano common stock.

Net Asset Value Analysis of Cano. RBC also performed a net asset value analysis of Cano. RBC calculated the present value of the field-level before-tax future cash flows that Cano could be expected to generate from its existing base of proved reserves, based on a third-party engineering report as of June 30, 2009 and assuming the NYMEX natural gas, crude oil and NGLs, prices of $3.71 per Mcf, $69.89 per barrel of oil and $40.71 per barrel of NGLs, respectively, risk-adjusted as follows:

- 100% weighting to PDP;
- 75% weighting to PDNP; and
- 25% weighting to PUD reserves.

RBC discounted these field-level before-tax cash flows at 10% in order to estimate Cano's gross asset value. RBC then calculated the net asset value for Cano by adjusting gross asset value for working capital, debt and cash. Net asset value per share for Cano, using a fully diluted number of shares adjusted for all options outstanding and restricted stock, was determined to be $1.98. RBC then applied a factor of +/- 10% to obtain a reasonable range of net asset values per share for Cano, yielding a range of $1.81 and $2.21 for Cano. RBC noted that the implied merger consideration value in the merger was $1.67 per share of Cano common stock.

Exchange Ratio Analysis

RBC calculated the implied exchange ratios using the Cano stand-alone per share equity valuation reference ranges obtained from the methodologies mentioned above, and the September 28 Resaca closing price. The results for each methodology were as follows:

Comparable Companies Analysis EV as a multiple of:	
2010E Production (Boe/d)	Up to 1.133x
Risked Reserves (Boe)	0.915x to 3.029x
Precedent Transaction Analysis EV as a multiple of:	
LTM Production (Boe/d)	Up to 0.713x
Risked Reserves (Boe)	1.443x to 3.558x
NAV Analysis	2.281x to 2.787x

RBC noted that the exchange ratio in the merger was 2.100x (prior to the Reverse Stock Split).

Historical Exchange Ratio Analysis

RBC reviewed the historical trading prices for shares of Cano common stock and Resaca common stock for the period from July 16, 2008 (the date of Resaca's initial public offering on the AIM) to September 28, 2009. RBC also analyzed the historical trading ratio of the respective common stock of Cano and Resaca for various periods during the period from July 16, 2008 to September 28, 2009 as set forth in the table below, and compared it to the exchange ratio of 2.100x to be paid in the merger and the premium (or discount) implied by that exchange ratio in the merger at each historical trading ratio.

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For purposes of its analysis, RBC converted Resaca's daily closing prices to United States dollars using the daily USD-GBP exchange rate per Bloomberg.

	Cano Price	Resaca Price	Implied Exchange Ratio	Implied Transaction Premium/Discount
Current (as of September 28, 2009)	$ 1.02	$ 0.79	1.284x	63.5%
1 Week Volume-Weighted Average Price ("VWAP")	1.02	0.80	1.275	64.7%
2 Weeks VWAP	1.10	0.75	1.456	44.3%
3 Weeks VWAP	1.05	0.67	1.566	34.1%
1 Month VWAP	1.03	0.63	1.633	28.6%
3 Months VWAP	0.87	0.52	1.675	25.4%
6 Months VWAP	0.87	0.46	1.906	10.2%
1 Year VWAP	0.77	0.46	1.699	23.6%
VWAP Since IPO	1.36	0.48	2.828	(25.7)%
52-week high price (9/28/08 to 9/28/09)	2.58	2.32	1.110	89.2%
52-week low price (9/28/08 to 9/28/09)	0.22	0.19	1.135	85.1%

Relative Contribution Analysis

RBC reviewed and analyzed the estimated future operating and financial contributions of each of Cano and Resaca to the pro forma merged entity, both on an unlevered (enterprise value) basis for fiscal year 2010 and fiscal year 2011 EBITDA, fiscal year 2009, fiscal year 2010 and fiscal year 2011 Production, and current risked and unrisked Reserves, and on a levered (equity ownership) basis for current Net Asset Value and fiscal year 2010 and fiscal year 2011 Cash Flow. These values were compared to Cano contribution to the combined entity of 59.4%, on an unlevered basis, and 49.7%, on a levered basis (pro forma common stock ownership of Cano stockholders). The following table presents the results of this analysis:

Unlevered basis

	Production	EBITDA
FY 2009	64%	
FY 2010	61%	38%
FY 2011	49%	24%

	Reserves
Current risked	78%
Current unrisked	71%

Levered basis

	Cash Flow
FY 2010	NM
FY 2011	44%

	Net Asset Value
Current risked	72%
Current unrisked	54%

Pro Forma Transaction Impact

RBC reviewed and analyzed the impact of the merger on a per share basis to Cano's shareholders in relation to certain financial and operating metrics of the combined company, on both a levered and

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unlevered basis. The per share impact was based on Cano contribution to the combined entity of 59.4%, on an unlevered basis, and 49.7%, on a levered basis (pro forma common stock ownership of Cano shareholders). The following table presents the results of this analysis:

Unlevered basis

	Production	EBITDA	G&A Expense
FY 2010	(3)%	55%	(4)%
FY 2011	22%	152%	2%

	Reserves	PV-10
Current risked	(24)%	(18)%
Current unrisked	(16)%	(3)%
Debt / FY 2010 EBITDA	(10.1x)	

Levered basis

	Cash Flow
FY 2010	(118)%
FY 2011	14%

Overview of Analyses; Other Considerations

In reaching its opinion, RBC did not assign any particular weight to any one analysis or the results yielded by that analysis. Rather, having reviewed these results in the aggregate, RBC exercised its professional judgment in determining that, as of September 29, 2009 and based on the aggregate of the analyses used and the results they yielded, the exchange ratio was fair, from a financial point of view, to the holders of Cano common stock. RBC believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the analyses and, accordingly, also made qualitative judgments concerning differences between the characteristics of Cano and the merger and the data selected for use in its analyses, as further discussed below.

No single company or transaction used in the above analyses as a comparison is identical to Cano, Resaca or the merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, businesses or transactions analyzed. The analyses were prepared solely for purposes of RBC providing an opinion as to the fairness, from a financial point of view, of the exchange ratio to the holders of Cano common stock and do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold, which are inherently subject to uncertainty.

The preparation of a fairness opinion is a complex process that involves the application of subjective business judgment in determining the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Several analytical methodologies have been employed and no one method of analysis should be regarded as critical to the overall conclusion RBC reached. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the value of particular techniques. The overall conclusions RBC reached are based on all the analyses and factors presented, taken as a whole, and also on application of RBC's own experience and judgment. Such conclusions may involve significant elements of subjective judgment and qualitative analysis. RBC therefore gave no opinion as to the value or merit standing alone of any one or more parts of the analyses. RBC therefore believes that its analyses must be considered as a whole and that selecting portions of the analyses and of the factors considered, without considering all factors and analyses, could create an incomplete or misleading view of the processes underlying its opinion. RBC's opinion was approved by RBC's Fairness Opinion Committee.

In connection with its analyses, RBC made, and was provided by Cano's management and/or Resaca's management with, numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond Cano's and/or Resaca's control. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of Cano or Resaca or its respective advisors, none of Cano, Resaca, RBC or any other person assumes responsibility if future results or actual values are materially different from these forecasts or assumptions.

Under its engagement agreement with Cano, RBC became entitled to receive a fee of $300,000 upon the delivery of RBC's opinion, which fee is not contingent upon the successful completion of the merger. In addition, for RBC's services as financial advisor to Cano in connection with the merger, if the merger is successfully completed, RBC will receive an additional fee equal to $1,500,000, against which the fee RBC received for delivery of its opinion will be credited. In addition, Cano has agreed to pay RBC an exchange fee equal to a specified percentage of the gross face amount of any securities extinguished in an exchange of certain securities of Cano for new securities, including in connection with the merger, half of which exchange fee shall be credited against the fee payable if the merger is successfully completed. Cano and RBC estimate that the exchange of the Cano preferred stock for the Resaca preferred stock in the merger will result in an additional exchange fee payment equal to approximately $400,000 after giving effect to the credits of the exchange fee. In addition, if, in connection with the merger not being completed, Cano receives a termination fee, RBC will be entitled to a specified percentage of that fee in cash, when it is received by Cano.

Under its engagement agreement with Cano, Cano has also agreed to indemnify RBC and its related parties for claims, damages, losses, liabilities or expenses that relate to or may arise out of the merger or RBC's engagement under the engagement agreement unless they have been found to have resulted primarily and directly from the gross negligence or willful misconduct of the indemnified party. In addition, Cano also agreed to reimburse RBC and its related parties for its reasonable out-of-pocket expenses incurred in connection with RBC's services or the investigation of, or preparation for or defense of any pending or threatened claim that relates to or may arise out of the merger or RBC's engagement under the engagement agreement. In addition, in the engagement agreement with Cano, Cano agreed that neither RBC nor any of its related parties will have any liability to Cano or its affiliates, partners, directors, officers, consultants, agents, employees, controlling persons, creditors or security holders for any losses, claims, damages, liabilities or reasonable expenses related to or arising out of the merger or RBC's engagement under the engagement agreement unless they have been found to have resulted primarily and directly from the gross negligence or willful misconduct of RBC or the related party. In addition, in the engagement agreement with Cano, Cano acknowledged and agreed that all advice and opinions rendered by RBC are intended solely for the use and benefit of the Cano board of directors and may not be used or relied upon by any other person, nor may such advice or opinions be reproduced, summarized, excerpted from or referred to in any public document or given to any other person without the prior written consent of RBC. RBC has provided its consent to the disclosure and summary of its opinion in this proxy statement. With respect to the terms of the engagement agreement with RBC that relate to the exculpation of liability and the inability of any person other than the Cano board of directors to rely on the opinions or advice of RBC, both Cano and RBC believe that such provisions are customary for financial advisory engagement agreements of this kind. However, neither Cano nor RBC has evaluated or reached any conclusions about whether these provisions of the engagement agreement would be enforceable against Cano shareholders, who are not parties to the engagement agreement, in this matter. The availability of any basis upon which the enforceability of such provisions could be challenged, and any defenses that RBC or Cano would have to such challenges, would, if challenged, be determined by a court of competent jurisdiction.

The terms of the engagement letter were negotiated at arm's-length between Cano and RBC and the Cano board of directors was aware of this fee arrangement and the other terms of the engagement at the time of its approval of the merger agreement.

RBC, as part of its investment banking services, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, corporate restructurings, underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for corporate and other purposes. In the ordinary course of business, RBC or one or more of its affiliates may act as a market maker and broker in the publicly traded securities of Cano and/or Resaca and receive customary compensation, and may also actively trade securities of Cano and/or Resaca for its own account and the accounts of its customers, and, accordingly, RBC and its affiliates may hold a long or short position in such securities. In addition, RBC and/or one or more of its affiliates have in the past provided investment banking services to each of Cano and Resaca, for which RBC received customary fees. In particular, in December 2008, RBC was retained by Cano as a financial advisor to advise the Cano board of directors on various strategic matters not specifically related to Resaca. In July 2008, RBC or one or more of its affiliates represented Resaca as the joint broker and in other related capacities for the initial public offering and admittance for trading to the AIM of shares of Resaca common stock, and RBC or one or more of its affiliates has continued to serve as a joint broker for Resaca since the initial public offering. In October 2008, RBC or one or more of its affiliates represented Resaca as a financial advisor in connection with Resaca's consideration of a possible acquisition transaction and a related equity offering in connection with the acquisition transaction. Neither the acquisition transaction nor the offering was consummated. In light of RBC's prior services to Cano and Resaca, RBC anticipated that it may be selected by Cano and/or Resaca to provide investment banking and financial advisory and/or financing services that may be required by Cano and/or Resaca in the future, regardless of whether the merger is successfully completed, for which RBC would expect to receive customary fees. Since the date of the delivery of RBC's opinion, RBC and Resaca have agreed that RBC will serve as the underwriter in the equity offering of Resaca referred to elsewhere in this proxy statement, for which RBC will receive customary fees. RBC has not received any fees from Cano or Resaca in the prior two years except as described above, will not receive any fees from Resaca relating to the merger and does not have any agreement or understanding with Cano or Resaca regarding any other services to be performed now or in the future, other than pursuant to its engagements described above. The Cano board of directors, in selecting RBC as its financial advisor and in receiving and taking into consideration RBC's opinion, was aware of these facts but determined that RBC's prior services did not preclude, but rather they supported, the re-engagement of RBC as its financial advisor.

RBC is an internationally recognized investment banking firm providing a full range of financial advisory and securities services. Cano selected RBC as its financial advisor based on RBC's experience in mergers and acquisitions and in securities valuation generally.

RBC's opinion was one of many factors taken into consideration by the Cano board of directors in determining to enter into the merger agreement. See " Cano's Reasons for the Merger" beginning on page I-90. Consequently, the analyses described above should not be viewed as determinative of the opinion of the Cano board of directors or any director with respect to the exchange ratio or of whether the Cano board of directors would have been willing to determine that a different exchange ratio was fair. The exchange ratio to be paid pursuant to the merger was determined through arm's-length negotiations between Cano and Resaca and was recommended by the Cano board of directors. RBC did not recommend any specific exchange ratio to the Cano board of directors or Cano or that any given exchange ratio constituted the only appropriate consideration for the merger.

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Accounting Treatment

The merger will be accounted for as an acquisition of Cano by Resaca under the purchase method of accounting under U.S. generally accepted accounting principles. Under the purchase method of accounting, the assets and liabilities of the acquired company are, as of completion of the merger, recorded at their respective fair values and added to those of the accounting acquirer. Financial statements of Resaca issued after the merger will reflect only the operations of Cano after the merger and will not be restated retroactively to reflect the historical financial position or results of operations of Cano.

All unaudited pro forma consolidated financial statements contained in this proxy statement were prepared using the purchase method of accounting. The final allocation of the purchase price will be determined after the merger is completed and after completion of an analysis to determine the fair value of Cano's assets and liabilities. Accordingly, the final purchase accounting adjustments may be materially different from the unaudited pro forma adjustments. Any decrease in the fair value of the assets or increase in the fair value of the liabilities of Cano as compared to the unaudited pro forma information included in this proxy statement will have the effect of increasing the amount of the purchase price allocable to oil and gas properties.

Opinion as to Material U.S. Federal Income Tax Consequences of the Merger

As a condition to the merger, Cano must receive an opinion of its tax counsel, Thompson & Knight, that the merger will be treated for U.S. federal income tax purposes as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code and that Cano and Resaca shall each be a party to the reorganization within the meaning of Section 368 of the Internal Revenue Code.

Such opinion is or will be based on certain factual representations, warranties and covenants contained in the certificates signed by duly authorized officers of Cano, Resaca and Merger Sub. An opinion of counsel represents counsel's best legal judgment and is not binding on the Internal Revenue Service, and there can be no assurance that following the merger the Internal Revenue Service will not challenge the legal conclusion expressed in the opinion. Please review carefully the information under the caption "Material U.S. Federal Income Tax Consequences of the Merger" beginning on page I-116 for a description of the material U.S. federal income tax consequences of the merger.

Interests of Certain Persons in the Merger

In considering the recommendation of the boards with respect to the merger, you should be aware that certain officers and directors of Resaca and Cano have the following interests in the merger that are separate from and in addition to the interests of shareholders of Resaca and stockholders of Cano generally. The Resaca and Cano boards were aware of these interests and considered them in approving the merger agreement.

Composition of Resaca's Board. The merger agreement provides that after the merger the Resaca board will consist of seven members four individuals designated by Resaca and three individuals designated by Cano. Members of Resaca's board of directors who are not also employees of Resaca will each receive the director's fees and other compensation described under "Compensation Discussion & Analysis of Resaca" on page IV-1.

Outstanding Stock Options and Restricted Stock. As of May 28, 2010, directors, executive officers and employees of Cano held options for 1,320,910 shares of Cano common stock and restricted stock awards related to 273,335 shares of Cano common stock. As of May 28, 2010, options to purchase 195,315 shares of Cano common stock were subject to vesting, with 64,283 options vesting in 2010, 127,532 options vesting in 2011 and 3,500 options vesting in 2012. These options will vest in full immediately prior to the completion of the merger and will be converted into options to purchase shares of Resaca common stock, subject to adjustment for the 0.42 exchange ratio (prior to effectuating the Reverse Stock Split) and in accordance with the requirements of Section 424(a) of the Internal Revenue Code. In addition, on May 28, 2010, 273,335 shares of Cano restricted stock were subject to vesting, with 126,667 shares vesting in 2010 and 146,668 shares vesting in 2011. The restrictions on any restricted stock awards held by Cano's directors, employees and officers will expire immediately before the merger is completed.

The implied merger consideration price per Cano share is $1.67. Should $1.67 become the actual deal price (as stock-for-stock mergers result in fluctuating stock prices until completion), the quantification of the benefit to be received by the Cano directors, employees and executive officers in connection with accelerated vesting of outstanding Cano stock options and restricted stock would be $0 for stock options and $456,469 for restricted stock.

None of Cano's directors or executive officers have stock options with exercise prices of less than the $1.67 implied merger consideration price per Cano share that would vest immediately. Therefore, there is no benefit to the accelerated vesting of Cano stock options to Cano's directors and executive officers.

Cano's directors do not have restricted shares. Cano's executive officers and employees have an aggregate of 273,335 non-vested restricted stock shares at May 28, 2010. Based on the $1.67 implied merger consideration price per share, the benefit to the accelerated vesting of Cano restricted shares to Cano's executive officers and employees is $456,469 (273,335 shares times $1.67 per share). Due to fluctuations in the market price of Resaca common stock, the benefit to be received by the Cano directors, employees and executive officers could be more or less than the amounts stated upon consummation of the merger.

Employment Agreements. The following officers of Cano each have employment agreements with Cano which give them additional rights if there is a change of control of Cano: (i) Michael J. Ricketts, Vice President and Principal Accounting Officer; and (ii) Phillip B. Feiner, Corporate Secretary, Vice President and General Counsel. The merger will constitute a change of control under those agreements. Therefore, if any of those individuals is terminated for any reason within twelve months of the merger, or resigns within twelve months of the merger because his job title, duties or compensation has been reduced or he has been required to relocate to a county that does not abut Tarrant County, each will be entitled to a lump-sum cash severance payment equal to three times his annual salary then in effect and three times the sum of his prior year's bonuses, subject to certain limitations, and to company medical benefits for himself, his spouse and his dependants for up to three years. Upon such an event, the benefits payable to Messrs. Ricketts and Feiner under the terms of their respective employment agreements are $636,000 and $541,355, respectively. Also, Mr. Ricketts and his spouse and dependents would be entitled to medical benefits as described above during the succeeding three years estimated at $12,600 annually. Resaca currently intends to retain each of these individuals in positions and at compensation levels comparable to their current positions and compensation levels with Cano.

Mr. McKinney resigned from his position as Senior Vice President of Engineering and Operations of Cano, effective as of May 11, 2010. Mr. McKinney will not be an officer of Resaca upon the completion of the merger. As such, Mr. McKinney's employment agreement with Cano and any change of control provisions thereunder will have no effect.

S. Jeffrey Johnson and Benjamin L. Daitch, Cano's Chief Executive Officer and Chief Financial Officer, respectively, each have employment agreements with Cano containing provisions similar to those described above, and neither will continue as a Cano or Resaca employee after the merger. In connection with the signing of the merger agreement, Resaca required, and both Mr. Johnson and Mr. Daitch agreed, to enter into separation agreements permitting one-third of their respective severance payments to be made by delivery of shares of Resaca common stock rather than cash and

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reducing the term of the company medical benefits from three years to one year. The amounts due under such separation agreements, which will be paid six months after the completion of the merger, are as follows:

	Cash	Stock*
S. Jeffrey Johnson	$ 1,366,308	$ 683,304
Benjamin L. Daitch	$ 578,666	$ 289,332

* Shares of Resaca common stock equal to these dollar amounts as of the effective time of the merger will be issued to Messrs. Johnson and Daitch six months following such effective time.

Voting Agreement. On October 20, 2009, Cano entered into a stock voting agreement with S. Jeffrey Johnson, Cano's Chief Executive Officer and a member of Cano's board of directors, which provides, among other things, that Mr. Johnson will vote all of his shares of Cano common stock and Cano preferred stock in favor of the Cano Series D Amendment.

Directors' and Officers' Indemnification and Insurance. The merger agreement provides that for six years after the effective time of the merger, the surviving corporation will indemnify the present and former officers and directors of Cano and its subsidiaries from liabilities arising out of actions or omissions in their capacity as such at or prior to the effective time of the merger, to the full extent permitted under Delaware law or the surviving corporation's certificate of formation and bylaws. Accordingly, the surviving corporation will maintain Cano's directors' and officers' insurance coverage for six years after the effective time of the merger but only to the extent related to actions or omissions prior to the effective time of the merger, provided that the surviving corporation may substitute insurance policies with substantially similar coverage and amounts containing no less advantageous terms than those maintained by Cano as of the effective time of the merger. The aggregate amount of premiums to be paid with respect to the maintenance of such policies for the six-year period shall not exceed $2 million. Resaca has received premium quotations from insurance providers for such policies for substantially less than $2 million.

Appraisal Rights

Holders of shares of Cano preferred stock who do not vote in favor of the adoption of the merger agreement and who properly demand appraisal of their shares will be entitled to appraisal rights in connection with the merger under Section 262 of the DGCL.

The following summary of the provisions of Section 262 is not a complete statement of the law pertaining to appraisal rights under the DGCL, and is qualified in its entirety by reference to the full text of Section 262, a copy of which is attached as Annex E to this proxy statement. If you wish to exercise appraisal rights or wish to preserve your right to do so, you should carefully review Section 262 and are urged to consult a legal advisor.

Under Delaware law, holders of shares of Cano preferred stock who do not wish to accept the merger consideration, who do not vote in favor of the adoption of the merger agreement and who otherwise properly demand appraisal of their shares may elect to have the "fair value" of their shares of Cano preferred stock determined by the Delaware Court of Chancery and paid in cash, together with a interest, if any. The "fair value" will exclude any element of value arising from the accomplishment or expectation of the merger. A stockholder may only exercise these appraisal rights by complying with the provisions of Section 262 of the DGCL, which we refer to as Section 262.

All references in Section 262 and in this summary to a "stockholder" are to the record holder of shares of Cano preferred stock as to which appraisal rights are asserted. A person having a beneficial interest in shares of Cano preferred stock held of record in the name of another person, such as a broker, bank or other nominee, must act promptly to cause the record holder to follow properly the steps summarized below and in a timely manner to perfect appraisal rights.

Under Section 262, where a proposed merger is to be submitted for adoption at a meeting of stockholders, as in the case of Cano's special meeting, Cano, not less than 20 days prior to the meeting, must notify each of its stockholders entitled to appraisal rights that these appraisal rights are available and include in the notice a copy of Section 262. This proxy statement constitutes notice to the Cano stockholders, and the full text of Section 262 is attached as Annex E to this proxy statement.

If you wish to exercise the right to demand appraisal under Section 262, you must satisfy each of the following conditions:

- You must deliver to Cano a written demand for appraisal of your shares of Cano preferred stock, which demand must reasonably inform Cano of your identity and that you are demanding appraisal of your shares of Cano preferred stock, **before the vote** on the adoption of merger agreement at Cano's special meeting. This demand must be in addition to and separate from any proxy or vote against the merger agreement.

- You must not vote your shares of Cano preferred stock in favor of the adoption of the merger agreement. A proxy that is submitted and does not contain voting instructions will, unless revoked, be voted in favor of the adoption of the merger agreement, and it will constitute a waiver of the stockholder's right of appraisal and will nullify any previously delivered written demand for appraisal. Therefore, if you vote by proxy and wish to exercise appraisal rights, you must vote against the adoption of the merger agreement or mark your proxy card to indicate that you abstain from voting on the adoption of the merger agreement.

- You must continuously hold your shares of Cano preferred stock of record from the date of making the demand for appraisal through the effective date of the merger. If you are the record holder of shares of Cano preferred stock on the date the written demand for appraisal is made but you thereafter transfer those shares prior to the effective date of the merger, you will lose any right to appraisal in respect of those shares.

Only a holder of record of shares of Cano preferred stock is entitled to demand an exercise of appraisal rights for those shares registered in that holder's name. A demand for appraisal should be executed by or on behalf of the stockholder of record, fully and correctly, as the holder's name appears on the holder's stock certificates, should specify the holder's name and mailing address and the number of shares registered in the holder's name and must state that the person intends thereby to demand appraisal of the holder's shares in connection with the merger.

If the shares of Cano preferred stock are owned of record by a person in a fiduciary capacity, such as a trustee, guardian or custodian, the demand must be executed in that capacity. If the shares are owned of record by more than one person as in a joint tenancy or tenancy in common, the demand must be executed by or on behalf of all of the owners. An authorized agent, including an agent for two or more joint owners, may execute a demand for appraisal on behalf of a stockholder; however, the agent must identify the record owner or owners and expressly disclose the fact that in executing the demand the agent is acting as agent for such owner or owners. A record holder, such as a broker, who holds shares as nominee for several beneficial owners may exercise appraisal rights with respect to the shares held for one or more beneficial owners while not exercising these rights with respect to the shares held for one or more other beneficial owners. In that case, the written demand should set forth the number of shares as to which appraisal is sought, and where no number of shares is expressly mentioned, the demand will be presumed to cover all shares held in the name of the record owner.

Stockholders who hold their shares of Cano preferred stock in "street name" in brokerage accounts or other nominee forms and who wish to exercise appraisal rights are urged to consult with their brokers to determine appropriate procedures for making a demand for appraisal.

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A stockholder who elects to exercise appraisal rights under Section 262 should mail or deliver a written demand to:

Cano Petroleum, Inc.
Corporate Secretary
801 Cherry Street, Suite 3200
Fort Worth, Texas 76102

Any stockholder who wishes to assert appraisal rights should not submit an election form, as doing so will be considered a withdrawal of any previously filed written demand for appraisal.

Within ten days after the effective date of the merger, Resaca, as the surviving corporation, must send a notice that the merger has become effective to each of Cano's former stockholders who has properly made a written demand for appraisal in accordance with Section 262 and who has not voted to adopt the merger agreement, referred to in this proxy statement as a dissenting stockholder. Within 120 days after the effective date of the merger, but not after that date, either Resaca or any dissenting stockholder may commence an appraisal proceeding by filing a petition in the Delaware Court of Chancery demanding a determination of the fair value of common stock held by all dissenting stockholders. Resaca is under no obligation, and has no present intent, to file a petition for appraisal, and stockholders seeking to exercise appraisal rights should not assume that Resaca will file a petition or that it will initiate any negotiations with respect to the fair value of the shares. Accordingly, stockholders who desire to have their shares appraised should initiate any petitions necessary for the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262. Since Resaca has no obligation to file a petition, the failure of affected stockholders to do so within the period specified could nullify any previous written demand for appraisal. As used in this paragraph and throughout the remainder of this section, references to Resaca mean the corporation that survives the merger.

Within 120 days after the effective date of the merger, any dissenting stockholder will be entitled to receive from Resaca, upon written request, a statement setting forth the aggregate number of shares of Cano preferred stock not voted in favor of the adoption of the merger agreement and with respect to which Cano received demands for appraisal and the aggregate number of holders of those shares. Resaca must mail this statement to the stockholder by the later of ten days after receipt of the request and ten days after expiration of the period for delivery of demands for appraisals under Section 262. Notwithstanding the foregoing, a person who is the beneficial owner of shares of Cano preferred stock held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, file a petition or request for the statement described in this paragraph.

A stockholder who timely files a petition for appraisal with the Delaware Court of Chancery must serve a copy upon Resaca. Resaca must, within 20 days, file with the Delaware Register in Chancery a duly verified list containing the names and addresses of all stockholders who have demanded appraisal of their shares of Cano preferred stock and who have not reached agreements with it as to the value of their shares. After notice to stockholders as may be ordered by the Delaware Court of Chancery, the Delaware Court of Chancery is empowered to conduct a hearing on the petition to determine which stockholders are entitled to appraisal rights. The Delaware Court of Chancery may require stockholders who have demanded an appraisal for their shares of Cano preferred stock and who hold shares represented by certificates to submit their certificates to the Register in Chancery for notation on the certificates of the pendency of the appraisal proceedings. If any stockholder fails to comply with the requirement, the Delaware Court of Chancery may dismiss the proceedings as to that stockholder.

After determining which stockholders are entitled to an appraisal, the Delaware Court of Chancery will appraise the "fair value" of their shares of Cano preferred stock and the appraisal proceeding shall be conducted in accordance with the rules of the Delaware Court of Chancery, including any rules specifically governing appraisal proceedings. This value will exclude any element of value arising from

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the accomplishment or expectation of the merger, together with interest, if any, to be paid upon the amount determined to be the fair value. Unless the Delaware Court of Chancery in its discretion determines otherwise for good cause shown, interest from the effective date of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective date of the merger and the date of payment of the judgment. The costs of the action may be determined by the Delaware Court of Chancery and taxed upon the parties as the Delaware Court of Chancery deems equitable under the circumstances. However, costs do not include attorneys' or expert witness fees. Upon application of a stockholder, the Delaware Court of Chancery may also order that all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding be charged pro rata against the value of all of the shares entitled to appraisal. These expenses may include, without limitation, reasonable attorneys' fees and the fees and expenses of experts. Stockholders considering seeking appraisal should be aware that the fair value of their shares as determined under Section 262 could be more than, the same as, or less than the value of the merger consideration they would be entitled to receive pursuant to the merger agreement if they did not seek appraisal of their shares. Stockholders should also be aware that investment banking opinions as to fairness from a financial point of view are not opinions as to fair value under Section 262. Although Cano believes that the merger consideration is fair, no representation is made as to the outcome of the appraisal of fair value as determined by the Delaware Court of Chancery, and stockholders should recognize that such an appraisal could result in a determination of a value higher or lower than, or the same as, the merger consideration. Neither Resaca nor Cano anticipate offering more than the applicable merger consideration to any holder of share of Cano preferred stock exercising appraisal rights, and reserve the right to assert, in any appraisal proceeding, that for purposes of Section 262, the "fair value" of a share of Cano preferred stock is less than the applicable merger consideration. The Delaware courts have stated that the methods which are generally considered acceptable in the financial community and otherwise admissible in court may be considered in the appraisal proceedings. In addition, the Delaware courts have decided that the statutory appraisal remedy, depending on factual circumstances, may or may not be a dissenting stockholder's exclusive remedy.

From and after the effective date of the merger, no dissenting stockholder shall be entitled to vote the shares of Cano preferred stock subject to that demand for any purpose or be entitled to receive payment of dividends or other distributions on those shares. However, stockholders will be entitled to dividends or other distributions payable to holders of record of shares of Cano preferred stock as of a record date prior to the effective date of the merger.

Any dissenting stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party may withdraw its demand for appraisal and accept the merger consideration by delivering to Resaca a written withdrawal of the stockholder's demands for appraisal within 60 days after the effective date of the merger or, if such written withdrawal is made more than 60 days after the effective date of the merger, with the written approval of Resaca. If a dissenting stockholder fails to perfect, successfully withdraws or loses such holder's right to appraisal, then the right of that dissenting stockholder to an appraisal will cease and the dissenting stockholder will be entitled to receive only the merger consideration. No appraisal proceeding before the Delaware Court of Chancery as to any stockholder will be dismissed without the approval of the Delaware Court of Chancery, and this approval may be conditioned upon any terms the Delaware Court of Chancery deems just; provided, however, that any dissenting stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party may withdraw his, her or its demand for appraisal and accept the merger consideration offered pursuant to the merger agreement within 60 days after the effective date of the merger. If Resaca does not approve a stockholder's request to withdraw a demand for appraisal when the approval is required, or, except with respect to any dissenting stockholder who withdraws such stockholder's right to appraisal in accordance with the proviso in the immediately preceding sentence, if the Delaware Court of Chancery does not approve the dismissal of an appraisal proceeding, the stockholder would be entitled to receive only the appraised value determined in any such appraisal proceeding. This value could be higher or lower than, or the same as, the value of the merger consideration.

Failure to strictly follow the steps required by Section 262 for perfecting appraisal rights will result in the loss of appraisal rights, in which event you will be entitled to receive the consideration with respect to your dissenting shares in accordance with the merger agreement. In view of the complexity of the provisions of Section 262, if you are considering exercising your appraisal rights under the DGCL, you are urged to consult your own legal advisor.

Cano Voting Agreements

Cano has entered into separate stock voting agreements with the holders of a majority of the outstanding Cano preferred stock. These voting agreements provide, among other things, that such holders will vote all of their respective shares of Cano preferred stock (a) in favor of the Cano Series D Amendment, (b) in favor of adoption of the merger agreement, and (c) in accordance with the recommendation of the Cano board of directors in connection with any Acquisition Proposal (as such term is defined in the merger agreement).

Additionally, each such holder has also agreed to deliver an irrevocable proxy to Cano and not to transfer any of its shares of Cano preferred stock during the term of the voting agreement. The voting agreements will terminate on the earlier of (a) the effective time of the merger, (b) the termination of the merger agreement in accordance with its terms, (c) any amendment, modification or supplement to the merger agreement or any waiver by any party thereto that is adverse to the interests of such holders without the prior written consent of a majority of holders of the Cano preferred stock, and (d) the failure of Resaca to assume certain of Cano's obligations with respect to the Cano preferred stock.

In addition, on October 20, 2009, Cano entered into a stock voting agreement with S. Jeffrey Johnson, Cano's Chief Executive Officer and a member of Cano's board of directors. See " Interests of Certain Persons in the Merger Voting Agreement."

Investors Rights Agreement with Holders of Resaca Preferred Stock

In connection with the issuance of the Resaca preferred stock to the current holders of the Cano preferred stock, Resaca entered into an investors rights agreement with the holders of the Resaca preferred stock on April 5, 2010. The following is a summary of selected provisions of the investors rights agreement. However, you should read the investors rights agreement, which is filed as Annex F to this proxy statement, for other provisions that may be important to you.

Registration Rights The investors rights agreement grants such shareholders substantially similar registration and other rights currently associated with the Cano preferred stock. Specifically, the investors rights agreement requires that Resaca will file a registration statement with the SEC covering the resale of the Resaca common stock underlying the Resaca preferred stock within 45 days after the effective date of the merger. If the registration statement is not filed with the SEC within such time, Resaca must pay 1.5% of the aggregate purchase price of the Resaca preferred stock and an additional 1.5% for every 30 days the registration statement is not filed. If the registration statement is not declared effective by the SEC within 90 days of the effective date of the merger if there is not any review of the registration statement by the SEC or within 120 days of the effective date of the merger if there is any review of the registration statement by the SEC, Resaca must pay 1.5% of the aggregate purchase price of the Resaca preferred stock and an additional 1.5% for every 30 days it is not effective. In addition, subject to certain exceptions, Resaca is to maintain the effectiveness of the registration statement and if the effectiveness of the registration statement is not maintained, then Resaca must pay 1.5% of the aggregate purchase price of the Resaca preferred stock and an additional

1.5% for every 30 days it is not maintained. The maximum aggregate of all registration delay payments is 10% of the aggregate purchase price of the Resaca preferred stock.

Pledging of Resaca Preferred Stock. Resaca preferred stock may be pledged by an investor in connection with a bona fide margin agreement or other loan or financing arrangement that is secured by the Resaca preferred stock. The pledge of Resaca preferred stock shall not be deemed to be a transfer, sale, or assignment of such stock.

Additional Registration Statements. Except for registration statements filed in connection with the merger or the offering, until the date that a registration statement covering the shares of Resaca common stock issuable upon conversion of the Resaca preferred stock becomes effective, Resaca shall not file a registration statement under the Securities Act relating to securities that are not Resaca preferred stock or Resaca common stock issuable upon conversion of Resaca preferred stock.

Corporate Existence. So long as any Resaca preferred stock is owned, Resaca shall not be party to any Fundamental Transaction (as defined in the Resaca Preferred Stock Certificate of Designations) unless Resaca is in compliance with the applicable provisions governing Fundamental Transactions set forth in the Resaca Preferred Stock Certificate of Designations.

Reservation of Shares of Common Stock. Resaca shall take all action necessary to at all times have authorized, and reserved for the purpose of issuance, no less than 130% of the maximum number of shares of Resaca common stock issuable upon conversion of the Resaca preferred stock.

Additional Issuances of Resaca Equity. Until no Resaca preferred stock remains outstanding, Resaca will not, directly or indirectly, offer, sell, grant any option to purchase, or otherwise dispose of (or announce any offer, sale, grant or any option to purchase or other disposition of) any of its or its subsidiaries' equity or equity equivalent securities, at any time during its life and under any circumstances, convertible into or exchangeable or exercisable for shares of Resaca common stock or Resaca common stock equivalents, which we refer to as a subsequent placement, unless Resaca shall has, among other things, completed the following:

(1) Resaca shall deliver to each holder of Resaca preferred stock a written notice, which we refer to as the offer notice, of any proposed or intended issuance or sale or exchange, which we refer to as the offer, of the securities being offered, which we refer to as the offered securities, in a subsequent placement, which offer notice shall (w) identify and describe the offered securities, (x) describe the price and other terms upon which they are to be issued, sold or exchanged, and the number or amount of the offered securities to be issued, sold or exchanged, (y) identify the persons or entities (if known) to which or with which the offered securities are to be offered, issued, sold or exchanged and (z) offer to issue and sell to or exchange with such holder of Resaca preferred stock 30% of the offered securities allocated among such holders of Resaca preferred stock (a) based on such holder's of Resaca preferred stock pro rata portion of the aggregate number of Resaca preferred stock held as of the date of such offer notice, which we refer to as the basic amount, and (b) with respect to each holder of Resaca preferred stock that elects to purchase its basic amount, any additional portion of the offered securities attributable to the basic amounts of other holders of Resaca preferred stock as such holder of Resaca preferred stock shall indicate it will purchase or acquire should the other holders of Resaca preferred stock subscribe for less than their basic amounts, which we refer to as the undersubscription amount, which process shall be repeated until the holders of Resaca preferred stock shall have an opportunity to subscribe for any remaining undersubscription amount.

(2) To accept an offer, in whole or in part, such holders of Resaca preferred stock must deliver a written notice to Resaca prior to the end of the third (3rd) business day after such holder's of Resaca preferred stock receipt of the offer notice, which we refer to as the offer period, setting forth the portion of such holder's of Resaca preferred stock basic amount that such

holder of Resaca preferred stock elects to purchase and, if such holder of Resaca preferred stock shall elect to purchase all of its basic amount, the undersubscription amount, if any, that such holder of Resaca preferred stock elects to purchase, which we refer to as the notice of acceptance. If such holder of Resaca preferred stock does not deliver the notice of acceptance prior to the end of the offer period, then such holder of Resaca preferred stock shall be deemed to have waived such holder's of Resaca preferred stock rights to purchase any offered securities in the subsequent placement which is the subject of the offer notice.

(3) Resaca shall have one hundred twenty (120) days from the expiration of the offer period above (i) to offer, issue, sell or exchange all or any part of such offered securities as to which a notice of acceptance has not been given by the holders of Resaca preferred stock, which we refer to as the refused securities, pursuant to a definitive agreement(s), which we refer to as the subsequent placement agreement, but only to the offerees described in the offer notice and only upon terms and conditions that are not more favorable to the acquiring person or persons or less favorable to Resaca than those set forth in the offer notice and (ii) to publicly announce (a) the execution of such subsequent placement agreement, and (b) either (x) the consummation of the transactions contemplated by such subsequent placement agreement or (y) the termination of such subsequent placement agreement, which shall be filed with the SEC on a Current Report on Form 8-K with such subsequent placement agreement and any documents contemplated therein filed as exhibits thereto.

(4) In the event Resaca shall propose to sell less than all the refused securities, then each holder of Resaca preferred stock may, at its sole option and in its sole discretion, reduce the number or amount of the offered securities specified in its notice of acceptance to an amount that shall be not less than the number or amount of the offered securities that such holder of Resaca preferred stock elected to purchase as set forth in the investors rights agreement.

(5) Upon the closing of the issuance, sale or exchange of all or less than all of the refused securities, the holders of Resaca preferred stock shall acquire from Resaca, and Resaca shall issue to the holders of Resaca preferred stock, the number or amount of offered securities specified in the notices of acceptance, as reduced pursuant to the investors rights agreement if the holders of Resaca preferred stock have so elected, upon the terms and conditions specified in the offer.

(6) Any offered securities not acquired by the holders of Resaca preferred stock or other persons in accordance with certain provisions of the investors rights agreement may not be issued, sold or exchanged until they are again offered to the holders of Resaca preferred stock under the procedures specified in the investors rights agreement.

Notwithstanding the foregoing, the foregoing preemptive rights of the Resaca preferred stockholders do not extend to issuances of excluded securities (as defined in "Description of Resaca Capital Stock Resaca Preferred Stock Adjustments to Conversion Price" on page I-139) or the issuance of Resaca common stock in the offering, regardless of whether the offering occurs before, simultaneously with or after the merger.

NYSE Amex Listing of Resaca Common Stock; Delisting and Deregistration of Cano Common Stock

Before the completion of the merger, Resaca has agreed to use all reasonable efforts to cause all outstanding shares of Resaca common stock and the shares of Resaca common stock to be issued in the merger and reserved for issuance under any equity awards to be approved for listing on the NYSE Amex. Such approval is a condition to the completion of the merger. On March 30, 2010, the combined company was approved for listing on the NYSE Amex upon notice of issuance. If the merger is completed, Cano common stock will cease to be listed on the NYSE Amex and its shares will be deregistered under the Securities Exchange Act of 1934, as amended.

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MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The following discussion is a summary of the material U.S. federal income tax consequences of the merger to holders of Cano common stock and Cano preferred stock and is the opinion of Thompson & Knight LLP insofar as it relates to matters of U.S. federal income tax law and legal conclusions with respect to those matters. This discussion is based on the Internal Revenue Code, applicable U.S. Treasury regulations promulgated thereunder, administrative rulings and judicial authorities, each as in effect as of the date of this document and all of which are subject to change at any time, possibly with retroactive effect. In addition, this discussion does not address any state, local or foreign tax consequences of the merger.

This discussion addresses only Cano stockholders who hold Cano common stock or Cano preferred stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code (generally, property held for investment). It does not address all aspects of U.S. federal income taxation that may be relevant to a particular Cano stockholder in light of that stockholder's individual circumstances or to a Cano stockholder who is subject to special treatment under U.S. federal income tax law, including, without limitation:

- a bank, insurance company or other financial institution;
- a tax-exempt organization;
- a mutual fund;
- a U.S. expatriate;
- an entity or arrangement treated as a partnership for U.S. federal income tax purposes or an investor in such partnership;
- a dealer in securities;
- a holder who has a functional currency other than the United States dollar;
- a holder liable for the alternative minimum tax;
- a trader in securities who elects to apply a mark-to-market method of accounting;
- a holder who holds Cano common stock or Cano preferred stock as part of a hedge, straddle, constructive sale or conversion transaction; and
- a holder who acquired Cano common stock or Cano preferred stock pursuant to the exercise of employee stock options or otherwise as compensation.

For purposes of this discussion, "U.S. Holder" refers to a beneficial owner of Cano common stock or Cano preferred stock that is, for U.S. federal income tax purposes, (1) an individual citizen or resident of the United States; (2) a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (4) a trust if it (A) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

The term "Non-U.S. Holder" means a beneficial owner of Cano common stock or Cano preferred stock that is neither a U.S. Holder nor an entity or arrangement treated as a partnership for U.S. federal income tax purposes. A Non-U.S. Holder does not include a holder who is an individual present in the United States for 183 days or more in the taxable year of the merger and who is not otherwise a resident of the United States for U.S. federal income tax purposes.

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If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds Cano common stock or Cano preferred stock, the tax treatment of a partner in that partnership generally will depend upon the status of the partner and the activities of that partnership. A partner in a partnership holding Cano common stock or Cano preferred stock should consult its tax advisor regarding the tax consequences of the merger.

Cano stockholders should consult their tax advisors as to the specific tax consequences to them of the merger in light of their particular circumstances, including the applicability and effect of U.S. federal, state, local and foreign income and other tax laws.

General. The merger has been structured to qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code. It is a condition to the completion of the merger that Cano receive a written opinion from its tax counsel, Thompson & Knight, dated as of the date of completion of the merger, to the effect that the merger will be treated as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code and that Cano and Resaca will each be a party to the reorganization within the meaning of Section 368 of the Internal Revenue Code. This opinion will be based on representations provided by Resaca, Merger Sub and Cano to be delivered at the time of closing and on customary assumptions. If any such representation or assumption is inaccurate, the tax consequences of the merger to holders of Cano common stock and Cano preferred stock could differ materially from those described below.

No ruling has been or will be sought from the Internal Revenue Service as to the U.S. federal income tax consequences of the merger and an opinion of counsel is not binding on the Internal Revenue Service or any court. Accordingly, there can be no assurance that the Internal Revenue Service will not disagree with or challenge any of the conclusions described herein.

In addition, in connection with the filing of the registration statement of which this proxy statement is a part, Cano has received a legal opinion from Thompson & Knight LLP, to the same effect as the opinions described above.

U.S. Holders Exchange of Cano Common Stock for Resaca Common Stock. The material U.S. federal income tax consequences of the merger to a U.S. Holder of Cano common stock who, pursuant to the merger, exchanges his or her Cano common stock for Resaca common stock are as follows:

- a holder of Cano common stock will not recognize gain or loss upon receipt of Resaca common stock solely in exchange for Cano common stock, except with respect to cash received in lieu of fractional shares of Resaca common stock (as discussed below);

- the aggregate tax basis in the shares of Resaca common stock received in the merger (including any fractional shares deemed received and exchanged for cash) will be equal to the aggregate tax basis of the Cano common stock surrendered; and

- the holding period of the shares of Resaca common stock received in the merger will include the holding period of the shares of Cano common stock surrendered in exchange therefor.

If a holder acquired different blocks of Cano common stock at different times or different prices, such holder's tax basis and holding periods in its Resaca common stock may be determined with reference to each block of Cano common stock.

U.S. Holders Exchange of Cano Preferred Stock for Resaca Preferred Stock. The material U.S. federal income tax consequences of the merger to a U.S. Holder of Cano preferred stock who, pursuant to the merger, exchanges his or her Cano preferred stock for Resaca preferred stock are as follows:

- a holder of Cano preferred stock will not recognize gain or loss upon receipt of Resaca preferred stock solely in exchange for Cano preferred stock;

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- the aggregate tax basis in the shares of Resaca preferred stock received in the merger will be equal to the aggregate tax basis of the Cano preferred stock surrendered; and

- the holding period of the shares of Resaca preferred stock received in the merger will include the holding period of the shares of Cano preferred stock surrendered in exchange therefor.

If a holder acquired different blocks of Cano preferred stock at different times or different prices, such holder's tax basis and holding periods in its Resaca preferred stock may be determined with reference to each block of Cano preferred stock.

U.S. Holders Cash in Lieu of Fractional Shares. A U.S. Holder of Cano common stock who receives cash in lieu of a fractional share of Resaca common stock generally will be treated as having received such fractional share in the merger and then as having received cash in exchange for such fractional share. Gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the tax basis allocated to such fractional share of Resaca common stock. Such gain or loss generally will be long-term capital gain or loss if, as of the effective date of the merger, the holding period in the Cano common stock exchanged is greater than one year.

Non-U.S. Holders. Special rules may apply to certain Non-U.S. Holders, such as U.S. expatriates, controlled foreign corporations, passive foreign investment companies, persons who actually or constructively own, or have owned, more than 5% of Cano's equity at any time during the five-year period ending at the date of completion of the merger, and corporations that accumulate earnings to avoid U.S. federal income tax. Such Non-U.S. Holders should consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them.

The following discussion assumes that Cano common stock will continue to be regularly traded on the NYSE Amex leading up to and as of the effective time of the merger, and that Resaca common stock will continue to be regularly traded on the AIM and/or the NYSE Amex as of and after the effective time of the merger, such that, in each case, Cano common stock and Resaca common stock will be considered to be "regularly traded on an established securities market" for purposes of the Internal Revenue Code.

As a result of the merger, a Non-U.S. Holder will recognize gain or loss to the same extent that a U.S. Holder will recognize gain as described above. Any gain recognized by a Non-U.S. Holder will constitute capital gain and generally will not be subject to U.S. federal income or withholding tax unless:

- the Non-U.S. Holder is an individual present in the United States for at least 183 days in the taxable year of the merger and certain other conditions are met; or

- the gain is "effectively connected" with the Non-U.S. Holder's conduct of a trade or business in the United States or, if certain tax treaties apply, the gain is attributable to a "permanent establishment" maintained by the Non-U.S. Holder in the United States.

In either of those cases, the Non-U.S. Holder generally will be treated in the same manner as a U.S. Holder, as described above. A Non-U.S. Holder described in the first bullet above will be subject to a flat 30% tax on any gain recognized, which may be offset by U.S. source capital losses. A Non-U.S. Holder described in the second bullet above will be subject to tax on any gain recognized at applicable U.S. federal income tax rates and, in addition, may be subject to a branch profits tax (if the Non-U.S. Holder is a corporation) equal to 30% (or lesser rate under an applicable income tax treaty) on his or her effectively connected earnings and profits for the taxable year, which would include such gain.

Information Reporting and Backup Withholding. A Cano stockholder may be subject to information reporting and backup withholding on any cash payment received in lieu of a fractional share of Resaca common stock, unless such stockholder properly establishes an exemption or provides a correct taxpayer identification number, and otherwise complies with backup withholding rules. Any amounts withheld under the backup withholding rules are not an additional tax and may be allowed as a refund or credit against such holder's U.S. federal income tax liability, provided the required information is timely furnished to the Internal Revenue Service.

The foregoing discussion is not intended to be legal or tax advice to any particular Cano stockholder. Tax matters regarding the merger are very complicated, and the tax consequences of the merger to any particular Cano stockholder will depend on that stockholder's particular situation. Cano stockholders should consult their own tax advisors regarding the specific tax consequences of the merger, including tax return reporting requirements, the applicability of U.S. federal, state, local and foreign tax laws and the effect of any proposed change in the tax laws to them.

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THE MERGER AGREEMENT

The following discussion summarizes material provisions of the merger agreement, a copy of which is attached as Annex A to this proxy statement. The rights and obligations of the parties are governed by the express terms and conditions of the merger agreement and not by this summary. We urge you to read the merger agreement carefully in its entirety, as well as this proxy statement, before making any decisions regarding the merger. Unless stated otherwise, all information in this proxy statement, including but not limited to share calculations and the exchange ratio in the merger, is presented as if the Resaca shareholders have approved, and Resaca has implemented immediately prior to the merger, the Reverse Stock Split.

The representations and warranties described below and included in the merger agreement were made by Resaca and Cano to each other as of specific dates. The assertions embodied in those representations and warranties were made solely for purposes of the merger agreement and may be subject to important qualifications and limitations agreed to by Resaca and Cano in connection with negotiating its terms. Moreover, the representations and warranties may be subject to a contractual standard of materiality that may be different from what may be viewed as material to the Cano stockholders or the Resaca shareholders, or may have been used for the purpose of allocating risk between Resaca and Cano rather than establishing matters as facts. The merger agreement is described in this proxy statement and included as Annex A only to provide you with information regarding its terms and conditions, and not to provide any other factual information regarding Resaca, Cano or their respective businesses. Accordingly, you should not rely on the representations and warranties in the merger agreement as characterizations of the actual state of facts about Resaca or Cano, and you should read the information provided elsewhere in this proxy statement for information regarding Resaca and Cano and their respective businesses. See "Where You Can Find More Information" beginning on page II-8 of this proxy statement.

The merger agreement contains representations and warranties Resaca and Cano made to each other. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules that Resaca and Cano have exchanged in connection with signing the merger agreement. While we do not believe that they contain information securities laws require us to publicly disclose other than information that has already been so disclosed, the disclosure schedules do contain information that modifies, quantifies and creates exceptions to the representations and warranties set forth in the attached merger agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, since they are modified in important part by the underlying disclosure schedules. These disclosure schedules contain information that has been included in Cano's prior public disclosures, as well as potential additional non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the merger agreement, which subsequent information may or may not be fully reflected in our public disclosures.

General

Under the merger agreement, Merger Sub will merge with and into Cano, with Cano being the surviving entity and a wholly-owned subsidiary of Resaca following completion of the merger. In the merger, Cano common stockholders will receive Resaca common stock and Cano preferred stockholders will receive Resaca preferred stock of Resaca, as described below under " Manner and Basis of Converting Securities."

The merger agreement provides that the closing of the merger will take place on the second business day on which all of the conditions to closing of the merger are satisfied or waived, or on such other date agreed to by Resaca and Cano. Resaca and Cano anticipate that the closing will occur immediately following the Resaca shareholder and Cano stockholder meetings, the effectiveness of the Cano Series D Amendment and the effectiveness of the Resaca Charter Amendment. The filing of a certificate of merger with the Secretary of State of Delaware will be made on the date of the closing. The merger will become effective on the date of filing of such certificate of merger or on a date agreed to by the parties to the merger as stated in the certificate of merger. Resaca and Cano currently expect to consummate the merger by the end of June 2010. However, it is possible that factors outside of either company's control could require Resaca or Cano to complete the merger at a later time or not to complete it at all.

Manner and Basis of Converting Securities

Cano Common Stock. At the time the merger becomes effective, each outstanding share of Cano common stock will be converted into the right to receive 0.42 shares of Resaca common stock. After the time the merger becomes effective, upon presentation of certificates for Cano common stock, those certificates will be cancelled and exchanged as set forth in the merger agreement. Holders will receive an amount in cash in lieu of fractional shares.

Resaca and Merger Sub Common Stock. All Resaca common stock that is issued and outstanding immediately prior to the effective time of the merger, and after giving effect to the Reverse Stock Split, will remain issued and outstanding immediately following the completion of the merger. In the merger, each share of common stock of Merger Sub will, at the effective time of the merger, become one share of stock of Cano, which will become a wholly-owned subsidiary of Resaca.

Cano Preferred Stock. At the time the merger becomes effective, each outstanding share of Cano preferred stock will be converted into the right to receive one share of Resaca preferred stock. After the time the merger becomes effective, upon presentation of certificates for Cano preferred stock, those certificates will be cancelled and exchanged as set forth in the merger agreement. See "Description of Resaca Capital Stock Resaca Preferred Stock" beginning on page I-138 for a description of the rights, privileges and preferences of the Resaca preferred stock.

Cano Stock Options. Immediately prior to completion of the merger, each Cano option will automatically become fully vested. In the merger, each Cano option to acquire Cano common stock will automatically become a fully vested option (i) to purchase that number of shares of Resaca common stock obtained by multiplying the number of shares of Cano common stock issuable upon the exercise of such option by the exchange ratio of 0.42, (ii) at an exercise price per share equal to the per share exercise price of such option divided by the exchange ratio of 0.42, and (iii) otherwise with the same terms and conditions as such outstanding options. However, in any event the exercise price, the number of shares purchasable pursuant to the option and the terms and conditions of exercise of such option will be determined in accordance with the requirements of Section 424(a) of the Internal Revenue Code and in a manner that does not cause any option to be deferred compensation subject to Section 409A of the Internal Revenue Code. Resaca will take all corporate actions necessary to reserve for issuance a sufficient number of shares of Resaca common stock for delivery upon exercise of the Cano options described above.

Cano Restricted Stock. Immediately prior to the completion of the merger, all restrictions on Cano restricted stock awards will expire and each outstanding share will be converted into the right to receive 0.42 shares of Resaca common stock at the effective time of the merger. Holders will receive an amount in cash in lieu of fractional shares.

Resaca Stock Options and Restricted Stock. Resaca's stock option agreements and restricted stock award agreements give the holders of such stock options or restricted stock additional rights if there is a change of control of Resaca. The Resaca board of directors has the power, and has elected, to waive such additional rights with respect to all outstanding Resaca stock options and restricted stock awards in connection with the merger. Each Resaca stock option and restricted stock award outstanding immediately prior to the effective time of the merger will remain outstanding immediately following the completion of the merger, without impact on vesting, exercise price or other restrictions of such stock options or restricted stock awards; provided, however, that the exercise price and/or the number of shares of Resaca common stock issuable under Resaca's outstanding stock options will be proportionately adjusted as a result of the Reverse Stock Split.

Surrender and Payment. Prior to the effective time of the merger, Resaca will deposit with an exchange agent, certificates representing the Resaca common stock and Resaca preferred stock to be issued and cash, if any, to be paid to the Cano common stockholders for fractional shares, if any. Within five business days after the merger, the exchange agent will send to each holder of record of Cano common and preferred stock certificates a letter of transmittal and instructions for use in effecting the exchange of their certificates for Resaca common stock or Resaca preferred stock or, in the case of fractional shares of Resaca common stock, cash. The exchange agent will exchange (i) whole shares of the Resaca common stock for surrendered shares of Cano common stock; (ii) the Resaca preferred stock for surrendered shares of Cano preferred stock and (iii) cash in lieu of fractional shares of Resaca common stock, pursuant to the terms of the merger agreement.

If your Cano stock certificate has been lost, stolen or destroyed, you may make an affidavit of that fact and, if required by Resaca, post bond in such reasonable amount as Resaca may direct as indemnity against any claim that may be made against it with respect to such Cano stock certificate. Upon receipt of the affidavit and bond, if any, the exchange agent will issue in exchange for such lost, stolen or destroyed Cano stock certificate the requisite merger consideration.

Before any person, entity or organization that is not the record holder of surrendered Cano common or preferred stock certificate(s) receives any of the merger consideration discussed above, (i) the surrendered stock certificate(s) must be properly endorsed or otherwise in proper form for transfer and (ii) the person, entity or organization owning the Cano common stock or Cano preferred stock must pay the exchange agent any transfer or other taxes required as a result of such issuance of merger consideration unless he or she establishes to the exchange agent's satisfaction that such tax has been paid or is not applicable.

Any shares of Resaca common stock or Resaca preferred stock and cash that remain unclaimed one year after the effective time of the merger will be returned to Resaca. Any holder of Cano common stock or Resaca preferred stock who has not exchanged his or her certificates representing such stock prior to that time may thereafter look only to Resaca, as general creditor, to exchange his or her stock certificates or to pay amounts to which he or she is entitled pursuant to the merger agreement. None of Cano, Resaca or Merger Sub will be liable to any holder of Cano common stock certificates or Cano preferred stock certificates for any amount paid, or merger consideration delivered, to a public official pursuant to applicable abandoned property, escheat or similar laws.

Resaca will act as the exchange agent for the redemption of the Cano options.

Dissenting Shares. Holders of Cano preferred stock who do not vote in favor of the merger (or consent to the merger in writing) may exercise appraisal rights under Section 262 of the DGCL. If a stockholder exercise appraisal rights, his or her shares shall represent only the right to receive the amount determined in accordance with Delaware law rather than the Resaca preferred stock to which he or she would otherwise be entitled. If the stockholder withdraws or otherwise loses his or her appraisal rights, then, he or she shall be entitled to receive Resaca preferred stock as if he or she had not exercised his or her appraisal rights. See "The Merger Appraisal Rights" beginning on page I-109 and "Section 262 of the General Corporation Law of the State of Delaware" attached as Annex E to this proxy statement.

Representations and Warranties

The merger agreement contains customary representations and warranties of Resaca and Cano relating to various aspects of the respective businesses and financial statements of the parties and other

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matters. The representations and warranties will not survive the merger, but they will serve as the basis of conditions to each of Resaca's and Cano's obligations to complete the merger.

Conduct of Business Pending the Merger

Resaca and Cano have agreed that, prior to the merger, each party will operate its business in the ordinary course consistent with past practice and will use all commercially reasonable efforts to preserve intact its business organizations and relationships with third parties and to keep available the services of its present officers and key employees.

In addition, the merger agreement places specific restrictions on the ability of Resaca and Cano (and Cano's subsidiaries) to, among other things:

- adopt or amend their charters or bylaws (or similar organizational documents);
- declare, set aside or pay any dividends on common stock or repurchase, redeem or otherwise acquire equity interests in Resaca, Cano or any of their subsidiaries (as applicable);
- merge or consolidate with another entity;
- make a material acquisition, enter into a new line of business or commence business operations in a new country;
- dispose of material assets or properties;
- settle a material tax audit, change any material tax elections or file a material amended tax return;
- issue securities or amend the terms of any of their outstanding securities;
- incur any indebtedness outside the ordinary course of business;
- increase compensation or benefits to executive officers or employees;
- settle pending litigation outside the ordinary course of business;
- make changes in its method of accounting;
- adopt a plan of partial or complete liquidation, dissolution or reorganization;
- participate in material new oil and gas operations;

- enter into hedging transactions outside the ordinary course of business;
- change the terms of any engagement agreements with financial advisors;
- adopt, amend, assume obligations under or terminate any employee benefit plan or collective bargaining agreement or enter into or amend any employment, severance or similar contract;
- approve a salary increase or terminate an employee eligible for a severance payment;
- create or acquire any subsidiaries;
- enter into significant seismic data licenses, other than pursuant to agreements or commitments existing on the date of the merger agreement; and
- adopt a plan of liquidation, dissolution or reorganization.

Certain Additional Provisions

Tax Treatment of the Merger. Resaca and Cano have agreed to use commercially reasonable efforts to cause the merger to qualify, and will not take, and will use all commercially reasonable efforts to

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prevent any subsidiary of Resaca or Cano (as applicable) from taking any actions which would prevent the merger from qualifying, as a tax-free reorganization within the meaning of the provisions of Section 368(a) of the Internal Revenue Code.

Acquisition Proposals (No-Shop Provisions). Until the termination of the merger agreement, Resaca, Cano and their officers, directors and agents will not:

- solicit, initiate or encourage an acquisition proposal or any inquiries or the making of any proposal that constitutes or reasonably could be expected to lead to an acquisition proposal;
- enter into any agreement with respect to an acquisition proposal;
- engage or participate in discussions or negotiations with a third party regarding an acquisition proposal; or
- disclose any nonpublic information with respect to, or otherwise cooperate in any way with an acquisition proposal.

However, Cano and Resaca may under certain circumstances communicate and negotiate with third parties that make bona fide unsolicited written acquisition proposals that could result in a transaction more favorable from a financial point of view to its stockholders or shareholders.

The term "acquisition proposal" means any inquiry or proposal relating to any acquisition of (i) assets or businesses representing 10% or more of Resaca or Cano (as applicable) or (ii) 10% or more of the outstanding equity interests in Resaca or Cano (as applicable) or any of its subsidiaries, individually or taken together, holding such assets or businesses. Neither Resaca nor Cano will waive any provisions of a confidentiality agreement entered into with any person who has indicated a willingness to make an acquisition proposal with respect to it. However, Resaca or Cano may waive any provision of any stand-still or similar agreement in effect on the date of the merger agreement to allow a person to make an acquisition proposal, so long as on that date, the person making the acquisition proposal becomes subject to stand-still provisions at least as restrictive as those in confidentiality agreements between Resaca and Cano.

In addition, each company has agreed to inform the other of any acquisition proposal or negotiations regarding an acquisition proposal.

Board and Board Committees. Resaca will use its best efforts to cause Donald W. Niemiec, William O. Powell, III and Garrett Smith, current members of Cano's board, to be elected as members of its board of directors simultaneous with the closing of the merger. At its annual meeting, Resaca has proposed that (i) Mr. Smith be elected to fill the vacancy created by Richard Kelly Plato's resignation as a Resaca Class II director, to serve as a director for a term expiring in 2013; (ii) Mr. Powell be elected as a Resaca Class I director, to serve as a director for a term expiring in 2012; and (iii) Mr. Niemiec be elected as a Resaca Class III director, to serve as a director for a term expiring in 2011.

During the one year period following the merger, each committee of the Resaca board of directors will consist of three or four directors, at least two of whom will be directors who served on Cano's board of directors immediately before the merger.

Conditions to the Merger

Conditions to the Obligations of Each Party. Unless waived, the respective obligations of each party to effect the merger will be subject to the fulfillment of the following conditions:

- the adoption of the merger agreement and the Cano Series D Amendment by the Cano common and preferred stockholders;

- the approval of the Merger and the Share Issuances, the Reverse Stock Split and the Incentive Plan Amendment by the Resaca shareholders;
- the absence of any law or court order that prohibits the merger or any proceedings by any governmental authority seeking to prevent the merger;
- the shares of Resaca common stock issued in the merger have been approved for listing on the NYSE Amex, which approval was received by Resaca on March 30, 2010; and
- all indebtedness under Resaca's and Cano's credit facilities having been repaid or refinanced, or Resaca and Cano having received consent of the lenders under such credit facilities to enter into the merger, which consents Resaca and Cano expect to receive prior to the marketing of the offering.

Resaca and Cano currently expect each of these conditions to be satisfied prior to or promptly after the Resaca shareholder and Cano stockholder meetings.

Conditions to Resaca's Obligations. Unless waived by Resaca, the obligation of Resaca to effect the merger is subject to the following additional conditions, among others:

- compliance by Cano with its obligations under the merger agreement and the representations and warranties of Cano contained in the merger agreement being true and correct in all material respects both as of the date of the merger agreement and as of the effective time of the merger;
- the absence of any change in the financial condition, business or operations of Cano that would constitute a material adverse effect;
- Cano must have delivered to its counsel, Resaca and Resaca's counsel a certificate, signed on behalf of Cano by a duly authorized officer of Cano certifying the representations necessary for counsel to Cano to opine that the merger will qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code;
- the receipt by Resaca of a "comfort" letter from Cano's independent registered accounting firm as to Cano's financial information contained herein;
- the aggregate number of Cano dissenting shares shall not exceed 1% of the total number of shares of Cano common stock issued and outstanding as of the record date for the Cano special meeting of stockholders and entitled to vote on the proposed merger at such meeting;
- Cano must have terminated all performance bonus plans; and
- Resaca common stock must have been approved and readmitted for listing on the AIM, which is anticipated to occur simultaneous with the closing of the merger.

Resaca and Cano currently expect each of these conditions to be satisfied prior to or promptly after the Resaca shareholder and Cano stockholder meetings.

Conditions to Cano's Obligations. Unless waived by Cano, the obligation of Cano to effect the merger is subject to the following additional conditions, among others:

- compliance by Resaca with its obligations under the merger agreement and the representations and warranties of Resaca contained in the merger agreement being true and correct in all material respects both as of the date of the merger agreement and as of the effective time;

- the absence of any change in the financial condition, business or operations of Resaca that would constitute a material adverse effect;

- Resaca must have delivered to its counsel, Cano and Cano's counsel a certificate, signed on behalf of Resaca by a duly authorized officer of Resaca certifying the representations necessary

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- for counsel to Cano to opine that the merger will qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code;
- the receipt by Cano of a "comfort" letter from Resaca's independent registered accounting firm as to Resaca's financial information contained herein;
- the receipt by Cano of a legal opinion from its tax counsel with respect to certain U.S. federal income tax consequences of the merger; and
- D&O insurance tail coverage having been obtained and being in effect.

Resaca and Cano currently expect each of these conditions to be satisfied prior to or promptly after the Resaca shareholder and Cano stockholder meetings.

Termination

The merger agreement may be terminated at any time prior to the effective time, whether before or after approval by the Resaca shareholders or Cano stockholders:

- by mutual written consent of Cano and Resaca; or
- by either Resaca or Cano if:
  - the merger has not occurred by June 30, 2010, provided the party seeking termination is not in material breach of the merger agreement;
  - the other party is in material breach of the merger agreement and such breach is not cured in all material respects within twenty business days after notice of such breach;
  - any law, rule or regulation makes consummation of the merger illegal or if any final and nonappealable judgment, injunction, order or decree of a court or other governmental authority of competent jurisdiction restrains or prohibits the consummation of the merger;
  - the Resaca shareholders or Cano stockholders fail to approve the merger; provided that the party seeking to terminate the merger agreement shall not have breached in any material respect its obligations under the merger agreement in any manner that shall have contributed to the failure to receive approval;
  - the board of directors of the other party withdraws, modifies or changes its recommendation of the merger agreement or the merger in a manner adverse to such party or the board recommends any acquisition proposal to its shareholders or stockholders or resolves to do any of the foregoing;
  - a tender offer or exchange offer for 30% or more of the outstanding shares of capital stock of the other party is commenced, and the board of directors of the other party does not recommend that its shareholders or stockholders not tender their shares into such tender or exchange offer;

in the good faith determination of a party's board of directors, it becomes reasonably apparent that all indebtedness under a party's credit facilities will not be repaid or refinanced prior to or at the effective time of the merger or if a party will not receive consent under its credit facilities to enter into the merger agreement (other than through the failure of the terminating party to comply with its obligations under the merger agreement);

the other party accepts a superior proposal; or

the terminating party accepts a superior proposal after giving the other party an opportunity to review and match the terms of the superior proposal.

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The term "superior proposal" means an unsolicited bona fide proposal made by a third party relating to an acquisition proposal on terms that the applicable board of directors determines, after consulting with financial advisors and outside counsel, would result in a transaction that is more favorable from a financial point of view to its stockholders.

Termination Fees and Expenses

The merger agreement provides that, except as provided below, all expenses incurred by the parties will be borne by the party that has incurred such expenses. If the merger agreement is terminated for any reason, Cano and Resaca will share equally the expenses relating to this proxy statement (other than fees and expenses of outside counsel, accountants and financial advisors) and all regulatory filing fees.

The merger agreement provides for the payment by either party to the other of a termination fee of $3.5 million if the merger agreement is terminated in the following circumstances:

Payment of a Termination Fee by Resaca. Resaca will pay Cano a $3.5 million termination fee if the merger agreement is terminated:

- by Cano (i) due to a material breach of the merger agreement by Resaca or (ii) if the merger has not occurred by June 30, 2010 and Resaca is in material breach of the merger agreement and in either case within six (6) months following the termination date:
  - Resaca consummates a transaction that would constitute a Takeover (as defined below) of Resaca; or
  - Resaca enters into a definitive agreement providing for a Resaca Takeover that has been approved by the Resaca board;
- by Cano or Resaca, if Resaca accepts a superior proposal; or
- by Cano if Resaca does not have a right to terminate the merger agreement and:
  - the board of directors of Resaca withdraws, modifies or changes its recommendation of the merger agreement or the merger in a manner adverse to Cano or the Resaca board recommends any acquisition proposal to its shareholders or resolves to do any of the foregoing, or
  - a tender offer or exchange offer for 30% or more outstanding shares of capital stock of Resaca is commenced, and the board of directors of Resaca does not recommend that its shareholders not tender their shares into such tender or exchange offer.

The term "Takeover" means any direct or indirect acquisition by Cano or Resaca or any "group" (as such term is defined under Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder), in one transaction or a series of transactions, including any merger, consolidation, tender offer, exchange offer, stock acquisition, asset acquisition, binding share exchange, business combination, recapitalization, liquidation, dissolution, joint venture or similar transaction, of (A) assets or businesses that constitute or represent 50% or more of the total revenue, operating income, EBITDA or assets of either Resaca or Cano, as the case may be, and its subsidiaries, taken as a whole; (B) 50% or more of the outstanding shares of Cano or Resaca common stock or capital stock of, or other equity or voting interests in, any of their respective subsidiaries directly or indirectly holding, individually or taken together, the assets or business referred to in clause (A) above; or (C) 50% or more of the outstanding shares of capital stock of Cano or Resaca then representing 50% or more of the combined power to vote generally for the election of directors; provided, however, that any offering or sale by Cano or Resaca of additional shares of its respective common stock in one or more public offerings shall not be considered a Takeover.

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Payment of a Termination Fee by Cano. Cano will pay Resaca a $3.5 million termination fee if the merger agreement is terminated:

- by Resaca (i) due to a material breach of the merger agreement by Cano or (ii) if the merger has not occurred by June 30, 2010 and Cano is in material breach of the merger agreement and in either case within six (6) months following the termination date:
  - Cano consummates a transaction that would constitute a Takeover (as defined below) of Cano; or
  - Cano enters into a definitive agreement providing for a Cano Takeover that has been approved by the Cano board;
- by Cano or Resaca, if Cano accepts a superior proposal; or
- by Resaca if Cano does not have a right to terminate the merger agreement and:
  - the board of directors of Cano withdraws, modifies or changes its recommendation of the merger agreement or the merger in a manner adverse to Resaca or the Cano board recommends any acquisition proposal to its stockholders or resolves to do any of the foregoing, or
  - a tender offer or exchange offer for 30% or more outstanding shares of capital stock of Cano is commenced, and the board of directors of Cano does not recommend that its stockholders not tender their shares into such tender or exchange offer.

Amendment; Extension and Waiver

Amendment. Subject to the next sentence, the merger agreement may be amended at any time by the action or authorization of Resaca's board of directors and Cano's board of directors. If the merger agreement has been approved by the Resaca shareholders or the Cano stockholders, then no amendment can be entered into by that party if that amendment requires the further approval of Resaca shareholders or Cano stockholders, as applicable, without obtaining such further approval.

Extension. At any time prior to the effective time of the merger, Resaca and Cano may, to the extent permitted by law:

- grant the other party additional time to perform its obligations under the merger agreement,
- waive any inaccuracies in the representations and warranties of the other party; and
- waive compliance with any agreements or conditions for the benefit of that party.

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THE COMPANIES

Resaca

Resaca is an independent oil and gas development and production company based in Houston, Texas. Resaca's activities are currently focused on the exploitation of its portfolio of long-life properties, which have high levels of original oil in place, utilizing a variety of primary, secondary and tertiary recovery techniques. These properties are located in the Permian Basin of West Texas and Southeast New Mexico. Resaca routinely evaluates, and may acquire, further exploitation opportunities in the Permian Basin, other U.S. basins and in areas outside the United States.

Resaca's June 30, 2009 proved reserves of 14.2 MMBOE were comprised of 2.4 MMBOE of PDP, 5.6 MMBOE of PDNP, and 6.2 MMBOE of PUD. Crude oil reserves accounted for 84% of our total proved reserves at June 30, 2009. Reserves were estimated using NYMEX, crude oil and natural gas prices and production and development costs in effect on June 30, 2009. On June 30, 2009, NYMEX crude oil and natural gas prices were $69.89 per barrel and $3.84 per MMBtu, respectively. The values reported may not necessarily reflect the fair market value of the reserves.

For more information on Resaca, see "Where You Can Find More Information" on page II-8 and "Business & Financial Information of Resaca and Cano" beginning on page III-1.

Cano

Cano is an independent oil and natural gas development and production company based in Fort Worth, Texas. Cano's strategy is to exploit its current undeveloped reserves and acquire, where economically prudent, assets suitable for enhanced oil recovery at a low cost. Cano intends to convert its proved undeveloped and/or unproved reserves into proved producing reserves by applying water, gas and/or chemical flooding and other EOR techniques. Its assets are located onshore U.S. in Texas, New Mexico and Oklahoma.

During its first three years of operations, Cano's primary objective was to achieve growth through acquiring existing, mature crude oil and natural gas fields. The last two years Cano has focused on building the infrastructure and commencing waterflood operations in its two largest properties, Panhandle and Cato. Cano believes its portfolio of crude oil and natural gas properties provides opportunities to apply its operational strategy. Additionally, it will continue to evaluate acquisitions that are consistent with its operational strategy.

Cano's June 30, 2009 proved reserves of 49.1 MMBOE, were comprised 7.7 MMBOE of PDP, 2.4 MMBOE of PDNP, and 39.0 MMBOE of PUD. Crude oil reserves accounted for 79% of our total reserves at June 30, 2009. Adjusting for Cano's sale of wells in the Panhandle Properties during January 2010, Cano's adjusted proved reserves at June 30, 2009 would be 48.6 MMBOE, which comprised 7.2 MMBOE of PDP, 2.4 MMBOE of PDNP, and 39.0 MMBOE of PUD; and crude oil reserves accounted for 80.2% of total proved reserves.

For more information on Cano, see "Where You Can Find More Information" on page II-8 and "Business & Financial Information of Resaca and Cano" beginning on page III-1.

Merger Sub

Merger Sub, a wholly-owned subsidiary of Resaca, is a Delaware corporation formed on September 25, 2009, for the purpose of effecting the merger. Upon completion of the merger, Merger Sub will merge with and into Cano, and Cano will become a wholly-owned subsidiary of Resaca. Merger Sub has not conducted any activities other than those incidental to its formation and the matters contemplated by the merger agreement.

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MANAGEMENT

Current Directors, Executive Officers and Director Nominees

The following table sets forth certain information as of the date of this document regarding our present executive officers, directors and director nominees and our executive officers and directors following the completion of the merger. The directors and executive officers hold office until their successors are duly elected and qualified, or until their earlier death, removal or resignation from office.

Name	Age	Pre-Merger Title	Post-Merger Title
J.P. Bryan	70	Chairman of the Board of Directors	Chairman of the Board of Directors and Chief Executive Officer
John J. Lendrum, III	59	Chief Executive Officer and Director	Vice Chairman of the Board and Director
John William Sharp Bentley	62	Director	Director
Judy Ley Allen	71	Director and Director Nominee	Director
Richard Kelly Plato	40	Director and Director Nominee	
Donald W. Niemiec*	63	Cano Director and Director Nominee	Director
William O. Powell, III*	63	Cano Director and Director Nominee	Director
Garrett Smith*	48	Cano Director and Director Nominee	Director
Dennis Hammond	54	President and Chief Operating Officer	President and Chief Operating Officer
Randy Ziebarth	59	Vice President Operations	
Mary Lou Fry	52	Vice President, General Counsel and Secretary	
Chris Work	41	Vice President and Chief Financial Officer	Senior Vice President and Chief Financial Officer
Lisa Cohen	46	Vice President and Treasurer	Vice President and Treasurer
Ralph Carthrae	66	Vice President Marketing	
Robert Porter	54	Vice President of Engineering	Vice President of Engineering
R. Keith Turner	56	Vice President of Land	Vice President of Land
Michael J. Ricketts*	52	Vice President and Principal Accounting Officer, Cano	Vice President and Chief Accounting Officer
Phillip B. Feiner*	36	Corporate Secretary, Vice President and General Counsel, Cano	Vice President, General Counsel and Corporate Secretary

* These directors and officers will be appointed upon the consummation of the merger.

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The following biographies describe the business experience, pre-merger and post-merger, of our executive officers and directors (titles reflected below are such person's current position with Resaca or Cano):

J.P. Bryan, *Chairman of the Board*

Mr. Bryan serves as Chairman of the Board of Resaca and has served in that capacity since July 2008, when Resaca converted to a corporation. Mr. Bryan also serves as Chief Executive Officer of Torch. Mr. Bryan has served as Torch's CEO since he formed Torch in 1981. Since inception, Torch has invested and managed over $3 billion in energy assets under Mr. Bryan's leadership. Mr. Bryan's role in these efforts has been leadership at the highest level: establishment of the company's strategic direction, investment and growth opportunity evaluation, negotiation and transaction execution as well as management of senior professional staff. During his 40-year career in the energy industry, Mr. Bryan has also served as President, Chief Executive Officer and Chairman of the Board of various independent exploration and production companies, including Bellwether Exploration Company, which we refer to as Bellwether, Nuevo Energy Company, which we refer to as Nuevo, and Gulf Canada Resources Limited. He is a former member of the board of directors of AutoNation, Inc., which sells new and used automobiles. Mr. Bryan earned a Bachelor's degree in Business and a Law degree from the University of Texas. He also received a degree in international business from the American Institute of Foreign Trade (Thunderbird). After the merger, Mr. Bryan will become Chief Executive Officer of the combined company.

Mr. Bryan is a Class III director of Resaca and will hold office until the Resaca annual shareholder meeting in 2011 and until his successor is duly elected and qualified, or until his earlier death, resignation or removal.

John J. Lendrum, III, *Chief Executive Officer and Director*

Mr. Lendrum became Chief Executive Officer of Resaca in August 2007 and has served as President and Chief Operating Officer of Torch since 2005. As CEO of Resaca, Mr. Lendrum is responsible for establishing overall strategic direction for Resaca and management of senior professional staff. Mr. Lendrum led the effort to take Resaca public on the AIM in July 2008 and continues to be the primary contact with Resaca's investors in London. Prior to 2005, Mr. Lendrum founded and presided as President of Rockport Resources Capital Corporation, which we refer to as Rockport, a firm that specialized in providing capital to the energy industry. In addition to his duties at Rockport and simultaneously, Mr. Lendrum was a principal in a private midstream gas company. From 1986 to 1993, Mr. Lendrum served as Executive Vice President and Chief Financial Officer of Torch and was involved in the management of Nuevo, Bellwether, and Energy Assets International Corporation. Prior to 1986, Mr. Lendrum was the Executive Vice President and Chief Financial Officer of a private oil and gas exploration company for four years. Mr. Lendrum began his professional career with KPMG Peat Marwick, where he worked for seven years. Mr. Lendrum graduated from the University of Texas in 1973 with an undergraduate degree in Finance and completed his graduate studies in Accounting Theory. In addition to his duties at Resaca and Torch, Mr. Lendrum serves on the board of directors of BPZ Energy, a company with oil and gas activities in South America. Mr. Lendrum will resign as Chief Executive Officer upon the completion of the merger, but he will continue to serve as a director of the combined company and Vice Chairman of the Board.

Mr. Lendrum is a Class I director of Resaca and will hold office until the Resaca annual shareholder meeting in 2012 and until his successor is duly elected and qualified, or until his earlier death, resignation or removal.

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John William Sharp Bentley, *Non-executive Director*

Mr. Bentley has over 40 years' experience in the natural resources sector. He currently serves on the boards of a number of public companies having joined CDS Oil & Gas Group, plc as Chairman in 2005, Faroe Petroleum, plc as Chairman in 2007 and Artumas Group, Inc. as Chairman in 2007 and Scotgold Resources Ltd as Chairman in 2009. Mr. Bentley has focused exclusively on board and advisory positions since 2007. He was Executive Chairman of FirstAfrica Oil plc from September 2006 until its acquisition by BowLeven plc in early 2007. From 2004 through 2006 he was initially Advisor and subsequently Vice Chairman of Vanco Energy Company with responsibility for preparing the company for a public listing. In 2001, he founded Osprey Oil & Gas Ltd with a number of financial institutions and was its CEO until 2004. From 1993 until 2001, Mr. Bentley held various positions with Engen and its affiliate, Energy Africa Limited. In 1993, Mr. Bentley became Chief Executive Officer of Engen's Exploration and Production division. In 1996, he was instrumental in spinning off Energy Africa Limited from Engen and listing it on the Johannesburg and Luxembourg stock exchanges. From 1988 to 1993, Mr. Bentley was Managing Director of Gencor's Brazilian mining company, Sao Bento Mineracao. Mr. Bentley holds a degree in Metallurgy from Brunel University.

Mr. Bentley is a Class I director of Resaca and will hold office until the Resaca annual shareholder meeting in 2012 and until his successor is duly elected and qualified, or until his earlier death, resignation or removal.

Judy Ley Allen, *Non-executive Director and Director Nominee*

Ms. Allen has been an asset manager since 1977 for Allen Investments, a private company which has significant holdings in oil and gas, real estate, timberland and stocks and bonds. She is a former director of the Federal Reserve Bank of Dallas and currently sits on the Advisory Board of Governors of Rice University. She is an advisory trustee of the Houston Ballet Foundation and a trustee of the Houston Museum of Natural Science. Ms. Allen received a Bachelor of Arts degree from Stanford University and a Master's degree in Business Administration from Harvard Business School.

Ms. Allen is a Class II director of Resaca and a nominee for election as a Class II director at the Resaca annual meeting of shareholders. If Ms. Allen is re-elected, she will serve as a Class II Director until the Resaca annual shareholder meeting in 2013 and until her successor is duly elected and qualified, or until her earlier death, resignation or renewal.

Richard Kelly Plato, *Non-executive Director and Director Nominee*

Mr. Plato is Senior Vice President and Managing Director of NGP Capital Resources Company (NASDAQ:NGPC), which we refer to as NGP, a publicly traded financial services company organized to invest, primarily, in small and mid-size private energy companies. Mr. Plato joined NGP in January of 2005. Mr. Plato has 15 years of investment management, corporate finance, engineering and general management experience in the energy industry. Mr. Plato also serves on the Board of Managers of one of NGP's portfolio companies, Rubicon Energy Partners, LLC. Prior to joining NGP, Mr. Plato was a co-founder and partner of Odyssey Energy Capital, LLC, which we refer to as Odyssey, a private capital provider to the energy industry. Prior to Odyssey, Mr. Plato served in various management positions with Mirant Americas Energy Capital, LP, Tri-Union Development Corporation and Fina Oil and Chemical Company. Mr. Plato earned a Bachelor of Science degree in Petroleum Engineering from Texas A&M University and a Doctorate of Jurisprudence from South Texas College of Law.

Mr. Plato is a Class II director of Resaca and a nominee for election as a Class II director at the Resaca annual meeting of shareholders. Resaca anticipates that Mr. Plato will resign from the board of directors of Resaca upon completion of the merger.

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Donald W. Niemiec, *Director Nominee*

Mr. Niemiec is a nominee for election to the Resaca board of directors. Mr. Niemiec was appointed to the board of directors of Cano on March 2, 2007. From 2000 to the present, he has served as President of WR Energy, LLC, a strategic consulting company for the energy industry. From 1982 to 2000, Mr. Niemiec was employed in various capacities by Union Pacific Resources Group, Inc., including President of Union Pacific Fuels, Inc. and Vice President, Marketing & Corporate Development.

If Mr. Niemiec is elected, he will serve as a Class III Director until the Resaca annual shareholder meeting in 2011 and until his successor is duly elected and qualified, or until his earlier death, resignation or removal.

William O. Powell, III, *Director Nominee*

Mr. Powell is a nominee for election to the Resaca board of directors. Mr. Powell was appointed to the board of directors of Cano on March 12, 2007. From March 2005 to December 2006, Mr. Powell served as Vice President/Chief Financial Officer and Treasurer of ABS Group of Companies. From October 2003 to March 2004, Mr. Powell was the Vice President and Chief Accounting Officer for La Quinta. From May 1974 to June 2002, Mr. Powell held various positions, including Worldwide Engagement Leader-Partner, with PricewaterhouseCoopers, focusing on energy companies. Mr. Powell is a Certified Public Accountant.

If Mr. Powell is elected, he will serve as a Class I Director until the Resaca annual shareholder meeting in 2012 and until his successor is duly elected and qualified, or until his earlier death, resignation or removal.

Garrett Smith, *Director Nominee*

Mr. Smith is a nominee for election to the Resaca board of directors. Mr. Smith was elected to the Board of Directors of Cano at its Annual Meeting of Stockholders on January 9, 2009. Mr. Smith founded the Spinnerhawk Companies and certain affiliates, which we refer to as Spinnerhawk, which make private investments in the energy, real estate and health care industries, in February 2005 where he has served as the CEO of Spinnerhawk since its inception. Before forming Spinnerhawk, Mr. Smith served as a member of the Investment Committee at BP Capital, a private investment firm that focused on investments in the energy sectors, from December 2001 to December 2004. He was also the portfolio manager of the BP Capital Energy Equity Fund, which he co-founded with T. Boone Pickens in 2000. Previously, Mr. Smith was Chief Financial Officer and Executive Vice President of Pioneer Natural Resources. Mr. Smith currently serves as a member of the board of directors of The Hallwood Group Incorporated and Pacific Energy Resources Limited.

If Mr. Smith is elected, he will serve as a Class II Director until the Resaca annual shareholder meeting in 2013 and until his successor is duly elected and qualified, or until his earlier death, resignation or removal.

The Resaca board is divided into three classes of directors, designated Class I, Class II and Class III (which at all times shall be as nearly equal in number as possible), with the term of office of each director ending on the date of the third annual meeting following the annual meeting at which such director was elected; provided, that the initial Class II directors, who are still serving from their initial appointment to the Resaca board, shall serve for a term expiring at the upcoming Resaca 2010 annual meeting of shareholders, and the initial Class III directors, who are still serving from their initial appointment to the board, shall serve for a term expiring at the Resaca 2011 annual meeting of shareholders. Each director shall hold office until his or her successor shall have been duly elected and qualified. The current Class I directors are Messrs. Bentley and Lendrum, who will hold office until the 2012 annual meeting of shareholders and until their successors are duly elected and qualified. The

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current Class II directors are Ms. Allen and Mr. Plato, who will hold office until the 2010 annual meeting of shareholders and until their successors are duly elected and qualified. The current Class III director is Mr. Bryan, who will hold office until the 2011 annual meeting of shareholders and until his successor is duly elected and qualified.

Except for Dennis Hammond, President and Chief Operating Officer of Resaca, and Robert Porter, Vice President of Engineering of Resaca, who are full-time employees of Resaca, the following Torch employees are also co-employed by Resaca pursuant to the terms of a Co-Employer Agreement and such employees serve as part of the key management team of Resaca in the following capacities:

Dennis Hammond, *President and Chief Operating Officer*

Mr. Hammond joined Resaca as the President and Chief Operating Officer in August 2007. At Resaca, Mr. Hammond serves as the chief production and engineering officer. Prior to joining Resaca, Mr. Hammond served as Vice President for Everlast Energy from 2002 until November 2005 and for Five Point Energy from October 2005 until August 2007, both successful oil and gas acquisition and exploitation firms which Mr. Hammond co-founded. Mr. Hammond managed all engineering and operational activities for both firms. Mr. Hammond worked as Vice President Acquisitions for Torch, from 1987 until 1990, when he became Vice President Exploitation for Nuevo. Mr. Hammond then managed all of Nuevo's operations and engineering efforts until 2002. Mr. Hammond began his career with Chevron in 1978 and has over 30 years of progressive experience in petroleum engineering. He holds a Bachelor of Science degree in petroleum engineering from Texas A&M University and is a registered professional engineer in the State of Texas. After the merger, Mr. Hammond will serve as President and Chief Operating Officer of the combined company.

Robert Porter, *Vice President of Engineering*

Mr. Porter joined Resaca as the Vice President of Engineering in September 2008. From 2003 until joining Resaca in September of 2008, Mr. Porter worked as a consultant for Constellation Energy Commodities Group managing the drilling, completions and production operations of a coal bed methane project in the Black Warrior Basin of Alabama. Prior to this long-term project, Mr. Porter worked with several mid-sized independent oil and gas companies in various engineering capacities. Mr. Porter began his career with Chevron in 1978 and has thirty years of experience in reservoir engineering, operations and economic evaluations. He holds a Bachelor of Science degree in petroleum engineering from Texas A&M University. After the merger, Mr. Porter will serve the combined company as Vice President, Engineering.

Randy Ziebarth, *Vice President Operations*

Mr. Ziebarth has served as Vice President of Operations for Torch, since 1998, having originally joined Torch in 1993. In his current capacity, Mr. Ziebarth is responsible for many elements of Torch's business including midstream operations, commercial management, business and project development, acquisitions and divestitures, and planning and analysis. Mr. Ziebarth began his professional oil and gas career in 1976 and initially served in various operational capacities including production and drilling engineering positions and reservoir engineering applications. He has a broad and diverse experience base with mid-sized independent companies (including Maxus, Devon Energy, and Plains Resources) in both upstream and midstream operations. Mr. Ziebarth is a 1975 graduate of West Texas A&M University. After the merger, Mr. Ziebarth will continue to serve Torch in his current capacity and provide services to the combined company as needed under the Services Agreement.

Mary Lou Fry, *Vice President, General Counsel and Secretary*

Ms. Fry has served Torch as Vice President, General Counsel and Corporate Secretary since January 1, 2004. Her responsibilities include negotiating, drafting and closing transactions involving the

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acquisition, financing and management of producing oil and gas properties and midstream assets. Ms. Fry joined Torch's legal group in 1992. Prior to that time, she worked in the exploration and production area of the Shell Oil Company legal department from 1990 until 1992. She began her career with the Houston office of Mayer, Brown & Platt, LLP (now Mayer Brown) in 1983 where she was a member of the Natural Resources, Finance and Real Estate practice groups. Ms. Fry is admitted to practice law in the State of Texas. She is a 1983 graduate of Vanderbilt University School of Law and a 1980 graduate of the University of Kentucky Business School with an honors degree in Economics. After the merger, Ms. Fry will continue to serve Torch in her current capacity and provide services to the combined company as needed under the Services Agreement.

Chris Work, *Vice President and Chief Financial Officer*

Mr. Work has served Torch as Vice President and Chief Financial Officer since February of 2007. In addition to his accounting and corporate finance responsibilities, Mr. Work is responsible for Torch's information technology functions. Prior to joining Torch, Mr. Work served from 2004 to 2007 as Chief Financial Officer of a privately held residential mortgage bank. Prior to that time, Mr. Work held senior level management positions with El Paso Corporation and Belco Oil and Gas, two publicly held energy companies. In addition, Mr. Work has nearly eight years of public accounting experience with Arthur Andersen LLP and Ernst & Young LLP, where he primarily served oil and gas clients. Mr. Work is a certified public accountant and earned a Bachelor's degree in Accounting from Texas A&M University in 1990, graduating with honors. After the merger, Mr. Work will become Senior Vice President and Chief Financial Officer of the combined company.

Lisa Cohen, *Vice President and Treasurer*

Ms. Cohen serves Torch as Vice President and Treasurer. In addition to the cash management function, Ms. Cohen is responsible for risk management and human resources for both Torch and Resaca. Ms. Cohen joined Torch in 2004. She worked for Gulf South Pipeline in Houston from 2003 to 2004. From 1988 to 1994, Ms. Cohen worked in the lease finance business in New York and San Francisco with D'Accord Financial Services, Inc. Ms. Cohen began her career in the financial services industry as an analyst for Kidder, Peabody & Co. in New York in 1986. Ms. Cohen earned her M.B.A. in Finance from New York University in 1992 and graduated from the University of Virginia in 1986 with a B.A. in English. After the merger, Ms. Cohen will continue to serve Torch in her current capacity and provide services to the combined company as needed under the Services Agreement. In addition, Ms. Cohen will serve the combined company as Vice President and Treasurer.

Ralph Carthrae, *Vice President Marketing*

Mr. Carthrae has served Torch in various capacities since joining the company in 1996. Currently he is responsible for business development, natural gas and crude oil purchase, marketing and transportation agreements and the hedging of production. Mr. Carthrae's career began at Conoco, Inc., where his last position was Director of Refinery Supply. He then held various positions with refining, exploration and production, pipeline, and storage companies. Mr. Carthrae graduated from Kansas State University with a Bachelor of Civil Engineering in 1967. After the merger, Mr. Carthrae will continue to serve Torch in his current capacity and provide services to the combined company as needed under the Services Agreement.

R. Keith Turner, *Vice President of Land*

Mr. Turner joined Torch as Vice President of Land in November 2009. From 2003 until joining Torch in November 2009, Mr. Turner worked at Edge Petroleum Corporation as Vice President Land and previously as Staff Attorney. Prior to his employment at Edge, Mr. Turner worked for several mid-size independent oil and gas companies in various land and legal capacities. Mr. Turner began his

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career with Michigan Wisconsin Pipeline Company in 1977 and has over thirty years of professional experience in the industry. Mr. Turner is a 1976 graduate from Stephen F. Austin State University and a 1997 graduate from South Texas College of Law and a licensed attorney. After the merger, Mr. Turner will continue to serve Torch in his current capacity and provide services to the combined company as needed under the Services Agreement. In addition, Mr. Turner will serve the combined company as Vice President of Land.

Resaca anticipates that the following employees of Cano will become employees and officers (in the same capacity as with Cano) of Resaca upon completion of the merger:

Michael J. Ricketts, *Vice President and Principal Accounting Officer of Cano*

Mr. Ricketts was appointed Chief Financial Officer and Principal Accounting Officer of Cano on May 28, 2004 and remained in both positions until June 1, 2006. From June 1, 2006 to present, Mr. Ricketts has served as the Principal Accounting Officer of Cano. Mr. Ricketts served as a member of the Board of Directors of Cano from June 25, 2004 until April 6, 2005. Mr. Ricketts is a Certified Public Accountant. Prior to joining Cano, Mr. Ricketts was employed by TNP Enterprises, Inc. and its subsidiaries, Texas-New Mexico Power Company and First Choice Power for 15 years where he served as Director, Treasury from 2003 to 2004, Director, Business Development from 2002 until 2003 and Controller and Assistant Controller from 1998 until 2002. After the merger, Mr. Ricketts will serve the combined company as Vice President and Chief Accounting Officer.

Phillip B. Feiner, *Corporate Secretary, Vice President and General Counsel of Cano*

Mr. Feiner was appointed Vice President and General Counsel of Cano on May 7, 2008 and was Assistant General Counsel of Cano from February 2007 until May 7, 2008. From August 2005 until February 2007, Mr. Feiner maintained his own law practice specializing in real estate and corporate matters. Mr. Feiner served as General Counsel to BDS International, LLC, a Dallas-based exploration and development company, as well as its affiliate, Piute Pipeline from February 2002 until August 2005. He is a licensed attorney in the states of Texas and North Carolina. After the merger, Mr. Feiner will serve as Corporate Secretary, Vice President and General Counsel of the combined company.

Committees of the Resaca Board of Directors

The Resaca board of directors has the committees listed below. During the one year period following the merger, pursuant to the terms of the merger agreement, each committee of the Resaca board of directors will consist of three or four directors, at least two of whom will be directors who served on Cano's board of directors immediately before the merger. Messrs. Bentley, Niemiec, Powell and Smith and Ms. Allen satisfy standards for independence established by the SEC and the NYSE Amex. Messrs. Bryan and Lendrum do not satisfy the standards for independence established by the SEC and the NYSE Amex. Upon commencement of trading Resaca common stock on NYSE Amex, Resaca shall reconstitute its board committees such that the composition of all three committees is Ms. Allen and Messrs. Bentley and Plato. The combined company shall designate the members of its board committees immediately following the completion of the merger, however the combined company anticipates that the initial composition of such committees shall be as follows: (i) Audit Committee Messrs. Bentley, Powell and Smith; (ii) Compensation Committee Messrs. Bentley, Niemiec and Powell and Ms. Allen; and (iii) Nomination and Corporate Governance Committee Messrs. Niemiec and Smith and Ms. Allen.

Audit Committee

This committee, which prior to the commencement of trading Resaca common stock on NYSE Amex comprises Messrs. Plato (Chairman) and Bentley and Ms. Allen, reviews the annual financial statements, internal control matters and the scope and effectiveness of external audit. Representatives of senior management and the external auditors will normally attend meetings though such attendance is at the invitation of the committee. The external auditors will have unrestricted access to the chairman of the committee. In addition, the committee will review the necessity for the establishment of an internal audit function but considers that, given the size of Resaca and the close involvement of senior management in day-to-day operations, there is currently no requirement for such a function.

Compensation Committee

This committee, which prior to the commencement of trading Resaca common stock on NYSE Amex comprises Ms. Allen (Chairman) and Messrs. Bryan and Bentley, determine Resaca's executive directors' compensation. Non-executive directors' fees will be considered and agreed to by the Resaca board of directors as a whole.

Nomination and Corporate Governance Committee

This committee, which prior to the commencement of trading Resaca common stock on NYSE Amex comprises Messrs. Lendrum (Chairman), Bryan and Plato, (i) assists the Resaca board of directors and the Resaca shareholders by identifying individuals qualified to become Resaca board members, and selecting, or recommending that the Resaca board select, the director nominees for election at the annual or special meetings of the shareholders or for appointment to fill vacancies; (ii) recommends to the Resaca board director nominees for each committee of the board; (iii) advises the Resaca board about appropriate composition of the board and its committees; (iv) leads the Resaca board in its annual review of the performance of the board and its committees; and (v) performs such other functions as the Resaca board may assign to the committee from time to time.

Dealing Code

The Resaca board complies with Rule 21 of the AIM Rules relating to dealings in Resaca's shares and Resaca has adopted a code on dealing in securities to ensure compliance by the directors and applicable employees.

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DESCRIPTION OF RESACA CAPITAL STOCK

Pursuant to its charter, Resaca has the authority to issue an aggregate of 250,000,000 shares of capital stock, consisting of 230,000,000 shares of Resaca common stock and 20,000,000 shares of Resaca preferred stock. On May 28, 2010, Resaca had 96,947,494 shares of Resaca common stock outstanding and no shares of Resaca preferred stock outstanding. If the Resaca shareholders approve the Reverse Stock Split, the number of shares of Resaca capital stock authorized will remain unchanged and Resaca's 96,947,494 outstanding shares of Resaca common stock will be converted by a one-to-five ratio into approximately 19,389,499 shares of Resaca common stock outstanding immediately prior to the merger and issuance of additional shares in the offering.

Selected provisions of Resaca's charter documents are summarized below, however, you should read the charter documents, which are filed as exhibits to the form S-4 registration statement of which this proxy statement is a part, for other provisions that may be important to you. In addition, you should be aware that the summary below does not give full effect to the terms of the provisions of statutory or common law which may affect your rights as a shareholder.

Resaca Common Stock

Voting rights. Each share of Resaca common stock is entitled to one vote in the election of directors and on all other matters submitted to a vote of Resaca's shareholders. Resaca's shareholders do not have the right to cumulate their votes in the election of directors.

Dividends, distributions and stock splits. Holders of Resaca common stock are entitled to receive dividends if, as and when such dividends are declared by Resaca's board out of assets legally available therefor after payment of dividends required to be paid on shares of Resaca preferred stock, if any.

Liquidation. In the event of any dissolution, liquidation, or winding up of Resaca's affairs, whether voluntary or involuntary, after payment of its debts and other liabilities and making provision for any holders of its Resaca preferred stock who have a liquidation preference, Resaca's remaining assets will be distributed ratably among the holders of Resaca common stock.

Fully paid. All shares of Resaca common stock outstanding are fully paid and nonassessable.

Other rights. Holders of Resaca common stock have no redemption or conversion rights and no preemptive or other rights to subscribe for its securities.

Resaca Preferred Stock

Prior to the merger, Resaca's board of directors has the authority to issue up to 20,000,000 shares of Resaca preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rates, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of that series, which may be superior to those of the Resaca common stock, without further vote or action by the shareholders. One of the effects of undesignated preferred stock may be to enable Resaca's board of directors to render more difficult or to discourage an attempt to obtain control of Resaca by means of a tender offer, proxy contest, merger or otherwise, and as a result to protect the continuity of its management.

In connection with the merger, the Resaca board of directors will adopt a resolution to fix the rights, preferences, privileges and restrictions of a class of Series A Convertible Preferred Stock, comprised of 49,116 shares, in the form of a Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock, which we refer to as the Resaca Preferred Stock Certificate of Designations. The following is a summary of selected provisions of the Resaca Preferred Stock Certificate of Designations. However, you should read the proposed Resaca Preferred Stock Certificate

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of Designations, which is filed as an exhibit to this proxy statement, for other provisions that may be important to you.

Dividends. The Resaca preferred stock has a dividend rate of 7.875% per year (or 15% upon the occurrence of a Triggering Event (as defined below) payable quarterly in cash or in stock as an adjustment to the number of shares of Resaca common stock issuable upon conversion.

Conversion Right. Shares of Resaca preferred stock are convertible into shares of Resaca common stock at any time at an initial conversion price of $0.9926 per share (which does not reflect the Reverse Stock Split and will be adjusted to reflect the Reverse Stock Split), subject to adjustment for certain dilutive issuances, stock splits, stock dividends and other similar transactions.

Adjustments to Conversion Price. Immediately after certain dilutive issuances of Resaca common stock, subdivision (by stock split, stock dividend, recapitalization or otherwise) or combination (by combination, reverse stock split or otherwise) or any other events (such as the granting of stock appreciation rights, phantom stock rights or other rights with equity features), the conversion price shall be adjusted. Issuances of Resaca common stock or common stock equivalents (other than certain excluded issuances as discussed below, which we refer to as excluded securities) at a per share price less than the then conversion price in effect immediately prior to such issuances shall result in a weighed average conversion price adjustment; provided, however, that for the first nine (9) months following the initial issuance date of the Resaca preferred stock, which we refer to as the initial issuance period, any issuances of Resaca common stock or common stock equivalents at a per share price less than the market price of $0.7941 per share (which does not reflect the Reverse Stock Split), rather than the then conversion price in effect, shall result in a weighed average conversion price adjustment. In addition, for the first nine (9) months following the initial issuance date of the Resaca preferred stock, without the prior written consent of a majority of the holders of Resaca preferred stock, Resaca may not issue Resaca common stock (excluding issuances of excluded securities) for which it receives proceeds (net of offering expenses, discounts and fees) of more than $50 million at a gross price per share below the market price of $0.7941 per share (which does not reflect the Reverse Stock Split). Excluded securities include Resaca common stock issued or deemed issued in connection with (i) an approved employee stock plan, (ii) upon conversion of the Resaca preferred stock, (iii) in connection with the merger or the Reverse Stock Split, (iv) pursuant to a bona fide firm commitment underwritten public offering with a nationally recognized underwriter which generates gross proceeds to Resaca in excess of $50 million (other than an "at-the-market offering" or "equity lines"), (v) in connection with any strategic acquisition or transaction whether through an acquisition of stock or a merger of any business, assets or technologies the primary purpose of which is not to raise equity capital, (vi) upon conversion, exercise or exchange of options or convertible securities or vesting of restricted stock and (vii) in connection with any stock split, stock dividend, recapitalization or similar transaction by Resaca. Resaca common stock issued in the offering or, if the offering is not completed, any subsequent offering completed for the sole purpose of facilitating and consummating the merger and related transactions, which we refer to as a subsequent offering, shall not be an excluded security.

Additional Resaca Preferred Stock; Variable Securities; Dilutive Issuances. For so long as any Resaca preferred stock is outstanding, Resaca will not, without the prior written consent of the holders of a majority of the outstanding Resaca preferred stock, issue any Resaca preferred stock, and Resaca shall not issue any other securities that would cause a breach or default under the Resaca Preferred Stock Certificate of Designations other than those issued pursuant to the merger, the offering or the Reverse Stock Split. In addition, Resaca should not, in any manner, issue or sell (i) any rights, warrants or options to subscribe for or purchase Resaca common stock or (ii) any stock or securities directly or indirectly convertible into or exchangeable or exercisable for Resaca common stock at a conversion, exchange or exercise price which varies or may vary after issuance with the market price of Resaca common stock.

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Mandatory Redemption at Maturity. If any Resaca preferred stock remains outstanding on October 6, 2012, Resaca shall redeem such Resaca preferred stock for a conversion amount in cash equal to the sum of the Additional Amount and the stated value of $1,000. "Additional Amount" equals the product of (x) the result of the formula: (dividend rate)(N/360) and (y) the stated value of $1,000.

Redemption Option Upon Triggering Event. After a Triggering Event, each holder shall have the right to require us to redeem all or a portion of such holder's Resaca preferred stock equal to the greater of (i) 125% of the conversion amount and (ii) the product of (A) the conversion rate equal to conversion amount/conversion price in effect at such time and (B) the greater of the closing sale price of the Resaca common stock on the trading day immediately preceding such Triggering Event, the closing sale price of the Resaca common stock on the day immediately following such Triggering Event and the closing sale price of the Resaca common stock on the date the holder delivers the notice of redemption at the holder's option.

A "Triggering Event" occurs if:

- Resaca common stock is suspended from trading or fails to be listed on the NYSE Amex, the New York Stock Exchange, the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market for a period of 10 consecutive trading days or for more than an aggregate of 20 trading days in any 365-day period;

- Resaca fails to convert and does not cure this conversion failure within 10 business days after the applicable conversion date or give notice to any holder at any time of Resaca's intention not to comply with a request for conversion;

- Resaca fails to pay, and continues to fail to pay for at least 5 business days, to the holder any amounts when and as due pursuant to the Resaca Preferred Stock Certificate of Designations or any of the other agreements entered into in connection with the certificate of designation, which we refer to as the transaction documents;

- a court (i) enters a decree or order of voluntary or involuntary bankruptcy, insolvency, reorganization or other similar proceeding, (ii) appoints a custodian, receiver, liquidator or other similar official, or (iii) orders the winding up or liquidation of affairs, in respect of us or any joint venture or any entity in which Resaca, directly or indirectly, owns capital stock or hold an equity or similar interest or of any substantial part of Resaca's property and such decree or order is unstayed and in effect for 60 consecutive days;

- Resaca or any subsidiary (i) commences a voluntary bankruptcy, insolvency, reorganization or other similar proceeding, (ii) consents to an involuntary proceeding or appointment of a custodian, receiver, liquidator or other similar official, (iii) makes an assignment for the benefit of creditors, (iv) admits in writing its inability to pay debts generally as they become due, or (v) takes corporate action in furtherance of any such action; or

- Resaca defaults with respect to any indebtedness, which default has not been waived, and any applicable grace period has expired.

Notwithstanding, neither the merger, nor the offering or any subsequent offering (as defined in " Adjustments to Conversion Price" on page I-139), nor the Reverse Stock Split, regardless of when the merger, the offering or any subsequent offering occurs shall be considered a Triggering Event.

Change of Control Redemption Right. At any time during the period beginning after a holder's receipt of notice of a change of control (as defined below) and ending on the date that is 20 trading days after the consummation of such change of control, such eligible holder may require us to redeem all or any portion of such holder's Resaca preferred stock at a premium.

A change of control means any fundamental transaction (as defined below) other than (i) any reorganization, recapitalization or reclassification of the Resaca common stock in which holders of Resaca's voting power immediately prior to such reorganization, recapitalization or reclassification continue after such reorganization, recapitalization or reclassification to hold publicly traded securities and, directly or indirectly, the voting power of the surviving entity or entities necessary to elect a majority of the members of the Resaca board of directors (or their equivalent if other than a corporation) of such entity or entities, or (ii) pursuant to a migratory merger effected solely for the purpose of changing the jurisdiction of Resaca's incorporation. A fundamental transaction generally includes the following, whether in one or more related transactions: mergers or consolidations involving us, sales, assignments or transfers of all or substantially all of Resaca's assets, certain tender offers and business combinations in which another person acquires more than 50% of Resaca voting stock, reclassifications of Resaca common stock and any person becoming the beneficial owner of 50% of Resaca voting stock.

Other Rights. Resaca shall not enter into or be party to a fundamental transaction unless (i) the successor entity assumes in writing all of Resaca's obligations under the Resaca Preferred Stock Certificate of Designations and the other transaction documents pursuant to written agreements in form and substance satisfactory to a majority of the holders of the outstanding Resaca preferred stock and approved by such holders prior to such fundamental transaction and (ii) the successor entity is a publicly traded corporation whose common stock is quoted on or listed for trading on the American Stock Exchange, New York Stock Exchange, the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market.

If at any time Resaca grants, issues or sells any options, convertible securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of Resaca common stock, but excluding issuances of Resaca Common Stock in the offering or any subsequent offering (as defined in " Adjustments to Conversion Price" on page I-139), which we collectively refer to as purchase rights, the holders will be entitled to acquire the aggregate purchase rights which such holder could have acquired if such holder had held the number of shares of Resaca common stock acquirable upon complete conversion of the Resaca preferred stock immediately before the date on which a record is taken for the grant, issuance or sale of such purchase rights, or, if no such record is taken, the date as of which the record holders of Resaca common stock are to be determined for the grant, issue or sale of such purchase rights.

Following the occurrence of an asset sale (as defined below), a holder may require Resaca to redeem, with the available asset sale proceeds (as defined below), all or any portion of the Resaca preferred stock held by such holder. For so long as any Resaca preferred stock is outstanding, Resaca shall not, and shall not permit any of its subsidiaries to, directly or indirectly, consummate any asset sale unless Resaca receives consideration at the time of the asset sale at least equal to the fair market value of the assets or capital stock and all warrants, options or other rights to acquire capital stock issued or sold or otherwise disposed of.

An asset sale means, in one transaction or a series of related transactions, (i) the sale, lease, conveyance or other disposition of any assets or rights other than in the ordinary course of business consistent with past practice, or (ii) the sale of equity interests in any of Resaca subsidiaries, which sale, lease conveyance or other disposition of assets or rights or sale of equity interests generates proceeds to us equal to or greater than $15,000,000; provided, however, that neither (A) a sale, lease, conveyance or other disposition of the Cano Rich Valley Properties nor (B) any sale, lease, conveyance or other disposition of the Barnett Shale natural gas properties, which we refer to as Barnett Shale Properties, made solely for the purpose of contributing such Cano Barnett Shale Properties to a joint venture entity in which Resaca, or one of its wholly-owned subsidiaries, owns any equity interests thereof, shall be considered an asset Sale for purposes of the Resaca Preferred Stock Certificate of Designations.

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Available asset sale proceeds means, for any asset sales, the difference between (i) the cash proceeds generated in such asset sale and (ii) the outstanding principal amount (including any interest thereon) of the senior debt; provided, however, that in the event of any asset sale relating to the Cano Barnett Shale Properties the available asset sale proceeds shall be equal to the difference between (A) the cash proceeds generated in such asset sale and (B) $15,000,000.

Voting Rights. Subject to certain limitations on conversion, each holder shall be entitled to the whole number of votes equal to the lesser of (i) the number of shares of Resaca common stock into which the holder's Resaca preferred stock would be convertible and shall otherwise have voting rights and powers equal to the voting rights and powers of the Resaca common stock and (ii) the number of shares of Resaca common stock into which such holder's Resaca preferred stock would be convertible if the conversion price on the record date for the vote or consent of shareholders is deemed to be the market price of $0.7941 (which does not reflect the Reverse Stock Split), as adjusted for any stock dividend, stock split, stock combination, reclassification or similar transaction. The Resaca preferred stock shall vote as a class with the holders of Resaca common stock as if they were a single class of securities upon any matter submitted to a vote of shareholders, except those matters required by law or by the terms of the Resaca Preferred Stock Certificate of Designations to be submitted to a class vote of the holders of Resaca preferred stock, in which case the holders of Resaca preferred stock only shall vote as a separate class.

Liquidation Preference. In the event of any voluntary or involuntary liquidation, distribution of assets (other than the payment of dividends), dissolution or winding-up of Resaca's business, the Resaca preferred stock shall have preferential rights to holders of any of Resaca's capital stock of any class junior in rank to the Resaca preferred stock in respect of the preferences as to distributions and payments on the liquidation, dissolution and winding up of Resaca's business. All shares of Resaca common stock shall be of junior rank to all Resaca preferred stock.

The Resaca preferred stock is entitled to a liquidation preference equal to the stated value of the Resaca preferred stock plus accrued dividends.

Ranking; Issuances of Other Securities. Without the prior express written consent of a majority of the holders of the outstanding Resaca preferred stock, Resaca shall not authorize or issue additional or other capital stock that is of senior or pari-passu rank to the Resaca preferred stock in respect of the preferences as to distributions and payments upon Resaca's voluntary or involuntary liquidation, dissolution or winding up, the assets of which constitute all or substantially all of the assets of Resaca and Resaca subsidiary's business taken as a whole, in a single transaction or series of transactions. Resaca may issue other preferred stock that is junior in rank to the Resaca preferred stock, provided that the maturity date (or any other date requiring redemption or repayment of such preferred stock) of any such junior preferred stock is not on or before the 91st day following the maturity date October 6, 2012, unless extended.

Issuances of Equity-Linked Securities. For so long as any Resaca preferred stock is outstanding, Resaca will not, directly or indirectly, offer, sell, grant any option to purchase, or otherwise dispose of, any of Resaca indebtedness or indebtedness of Resaca subsidiaries that is, any time during its life and under any circumstances, convertible into or exchangeable or exercisable for shares of Resaca common stock, options, convertible securities or other capital stock.

Covenants. The affirmative vote or the written consent of the holders of at least a majority of the aggregate shares of Resaca preferred stock then outstanding, voting together as a single class, will be required for Resaca to:

- amend or repeal any provision of, or add any provision to, Resaca's certificate of formation or bylaws, or file any articles of amendment, certificate of designations, preferences, limitations and relative rights of any series of preferred stock, if such action would adversely alter or change the preferences, rights, privileges or powers of, or restrictions provided for the benefit of the Resaca preferred stock, regardless of whether any such action shall be by means of amendment to the Resaca certificate of formation or by merger, consolidation or otherwise;

increase or decrease (other than by conversion) the authorized number of shares of Resaca preferred stock;

create or authorize (by reclassification or otherwise) any new class or series of shares that has a preference over or in parity with the Resaca preferred stock with respect to dividends or the distribution of assets on the liquidation, dissolution or winding up of Resaca's business;

purchase, repurchase or redeem any shares of Resaca common stock (other than pursuant to equity incentive agreements with employees giving Resaca the right to repurchase shares upon the termination of services at cost);

pay dividends or make any other distribution on Resaca common stock;

whether or not prohibited by the terms of the Resaca preferred stock, circumvent a right of the Resaca preferred stock.

The issuance of shares of the Resaca preferred stock by Resaca's board of directors as described above may adversely affect the rights of the holders of Resaca common stock. For example, Resaca preferred stock issued by Resaca shall rank superior to the Resaca common stock as to dividend rights and liquidation preference, shall have preferred voting rights and is convertible into shares of Resaca common stock. Accordingly, the issuance of shares of Resaca preferred stock may discourage bids for Resaca common stock or may otherwise adversely affect the market price of Resaca common stock.

Anti-Takeover Law and Certain Charter and Bylaw Provisions

Resaca's certificate of formation, bylaws and the TBOC contain certain provisions that could discourage potential takeover attempts and make it more difficult for Resaca shareholders to change management or receive a premium for their shares. For a description of such provisions please see "Comparison of Rights of Resaca Shareholders and Cano Stockholders" beginning on page I-145.

Limitation of Liability; Indemnification

Resaca's charter documents contain certain provisions permitted under the TBOC relating to the liability of directors. These provisions eliminate a director's personal liability for monetary damages resulting from a breach of fiduciary duty, except that a director will be personally liable:

for any breach of the director's duty of loyalty to Resaca or Resaca's shareholders;

for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

an act or omission for which liability of a director is expressly provided by an applicable statute; and

for any transaction from which the director derives an improper personal benefit.

These provisions do not limit or eliminate Resaca's rights or those of any shareholders to seek non-monetary relief, such as an injunction or rescission, in the event of a breach of a director's fiduciary duty. These provisions will not alter a director's liability under federal securities laws.

Resaca's charter documents also provide that Resaca must indemnify its directors and officers to the fullest extent permitted by Texas law and also provide that it must advance expenses, as incurred, to its directors and officers in connection with a legal proceeding to the fullest extent permitted by Texas law, subject to very limited exceptions.

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Resaca has or may enter into separate indemnification agreements with its directors and officers that may, in some cases, be broader than the specific indemnification provisions contained in its certificate of incorporation, bylaws or the TBOC. The indemnification agreements may require Resaca, among other things, to indemnify the officers and directors against certain liabilities, other than liabilities arising from willful misconduct, that may arise by reason of their status or service as directors or officers. Resaca believes that these indemnification arrangements are necessary to attract and retain qualified individuals to serve as directors and officers.

Stock Exchanges

Our common stock is listed on the AIM market of the London Stock Exchange under the symbols "RSOX" and "RSX," and following completion of the merger will be listed on the AIM under the symbol "RSOX" and has been approved for listing on the NYSE Amex upon notice of issuance under the symbol "RSOX." The last reported sale price of our common stock as reported on the AIM on May 28, 2010 was $0.62 per share.

Transfer Agent and Registrar

Prior to the merger, the Transfer Agent and Registrar for the Resaca common stock is Computershare Investor Services (Jersey) Limited. Its phone number is +44 (0) 1534 825 292. Immediately following the merger, the Transfer Agent and Registrar for the Resaca common stock and the Resaca preferred stock will be Computershare Trust Company N.A. Its phone number is 800-962-4284.

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COMPARISON OF RIGHTS OF RESACA SHAREHOLDERS AND CANO STOCKHOLDERS

The rights of Cano stockholders are governed by Cano's charter documents, each as amended, restated, supplemented or otherwise modified from time to time, and the laws of the State of Delaware. The rights of Resaca shareholders are governed by Resaca's charter documents, each as amended, restated, supplemented or otherwise modified from time to time, and the laws of the State of Texas. After the merger, the Cano stockholders will become shareholders of Resaca and accordingly their rights will be governed by Resaca's charter documents, each as amended, restated, supplemented or otherwise modified from time to time, and the laws of the State of Texas. While the rights and privileges of Cano stockholders are, in many instances, comparable to those of the shareholders of Resaca, there are some differences. The following is a summary of the material differences as of the date of this proxy statement between the rights of the Cano stockholders and the rights of Resaca shareholders. These differences arise from differences between the respective charters and bylaws of Cano and Resaca and the differences between the DGCL and TBOC. We have noted below also instances where the post-merger rights and privileges of shareholders of the combined company differ from the pre-merger rights and privileges of Resaca shareholders.

The following discussion of these differences is only a summary of the material differences and does not purport to be a complete description of all the differences. Please consult the following references to the DGCL, TBOC and the respective charters and bylaws, each as amended, restated, supplemented or otherwise modified from time to time, of Cano and Resaca for a more complete understanding of these differences.

Resaca	**Cano**
Capital Stock:	
Pre-Merger: Resaca is authorized to issue: 230,000,000 shares of Resaca common stock, of which 96,947,494 were issued and outstanding as of May 28, 2010. Following the Resaca shareholder approval of the Reverse Stock Split, 19,389,499 shares of Resaca common stock will be issued and outstanding immediately prior to the merger.	Cano is authorized to issue: 100,000,000 shares of Cano common stock, of which 45,571,897 were issued and outstanding as of May 28, 2010.
20,000,000 shares of Resaca preferred stock, of which none are issued and outstanding.	5,000,000 shares of Cano preferred stock, of which 28,125 were issued and outstanding as of May 28, 2010.
Post-Merger: Resaca will be authorized to issue: 230,000,000 shares of Resaca common stock.	
20,000,000 shares of Resaca preferred stock of which 49,116 shares will be designated Series A Convertible Preferred Stock.	

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Dividends and Repurchases of Shares:

Pre-Merger:

TBOC § 21.302 provides that the board of directors of a corporation may authorize and the corporation may make distributions, however such distributions are subject to TBOC § 21.303 which provides that a distribution may not be made (1) if the distribution would violate the corporation's charter or (2) if the corporation would be insolvent after the distribution or if the distribution would exceed the distribution limit, unless the distribution is made in compliance with Chapter 11 of the TBOC. Under TBOC§ 21.301, "distribution limit" means the net assets of a corporation if the distribution is a purchase or redemption of any of its own shares by the corporation to (1) eliminate fractional shares, (2) collect or compromise indebtedness owed by or to the corporation, (3) pay dissenting shareholders entitled to payment for their shares under the TBOC or (4) effect the purchase or redemption of redeemable shares in accordance with the TBOC.

TBOC § 21.304 provides that a distribution may by made by a corporation for any outstanding redeemable shares subject to redemption. In the event that less than all of the outstanding redeemable shares of a corporation subject to redemption are to be redeemed, the shares to be redeemed shall be selected for redemption (1) in accordance with the corporation's charter; or (2) ratably or by lot in the manner prescribed by the resolution of the corporation's board of directors, if the charter does not specify how shares are to be selected for redemption.

DGCL § 170(a) permits the directors of a corporation to declare and pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year as long as the amount of capital of the corporation after the declaration and payment of the dividend is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having preference upon the distribution of assets. In addition, the DGCL § 160(a)(1) generally provides that a corporation may redeem or repurchase its shares only if the capital of the corporation is not impaired and such redemption or repurchase would not impair the capital of the corporation, except that a corporation may redeem out of its shares in which it would be entitled to any distribution.

Under Cano's charter, holders of Cano's common stock are entitled to receive dividends ratably when dividends are declared by the board of directors out of funds legally available for payment of dividends.

Under Cano's Certificate of Designations, Preferences and Rights of Series D Convertible Preferred Stock, which we refer to as the Cano Preferred Stock Certificate of Designations, holders of Cano preferred stock are entitled to receive dividends, which are cumulative, in the amount of $78.75 per year or $150 per year if any triggering events have occurred, including suspension of trading of Cano common stock for ten consecutive days, failure to pay a Cano preferred stockholder any amount when and as due or any event of default occurring with respect to any indebtedness, and until such triggering events are cured.

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Post-Merger:

Same as above. However, under the Resaca Preferred Stock Certificate of Designations, holders of Resaca preferred stock are entitled to receive dividends, which are cumulative, in the amount of $78.75 per year or $150 per year if any triggering events have occurred, including suspension of trading of Cano common stock for ten consecutive days, failure to pay a Cano preferred stockholder any amount when and as due or any event of default occurring with respect to any indebtedness, and until such triggering events are cured.

Preemptive Rights:

Pre-Merger

Texas law does not require shareholders to have preemptive rights, and Resaca's common shareholders do not possess preemptive rights under the terms of the Resaca charter.

Delaware law does not require stockholders to have preemptive rights, and Cano's common stockholders do not possess preemptive rights. Cano's preferred stockholders do possess those preemptive rights set forth in the Cano Preferred Stock Certificate of Designations.

Post-Merger

Same as above. However, the Resaca preferred shareholders will possess certain preemptive rights as set forth in the Resaca Preferred Stock Certificate of Designations.

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Number and Term of Directors:

Pre-Merger:

TBOC § 21.403(b) permits the charter or bylaws of a corporation to govern the number of directors.

DGCL § 141(b) permits the charter or bylaws of a corporation to govern the number of directors. However, if the charter fixes the number of directors, such number may not be changed without amending the charter.

Resaca's bylaws provide that the number of directors shall be fixed from time to time exclusively by the board of directors pursuant to a resolution adopted by a majority of the Whole Board. "Whole Board" means that total number of the authorized directors whether or not there exist any vacancies in previously authorized directorships.

Cano's bylaws provide that the number of directors shall be established by resolution of the board of directors. Currently, there are eight directors on the Cano board.

There are currently five directors serving on Resaca's board of directors. Resaca's directors are divided into three classes, designated Class I, Class II and Class III (which at all times shall be nearly equal in number as possible) with the term of office of the Class I directors to expire at Resaca's 2012 annual meeting of shareholders, the term of office of the Class II directors to expire at Resaca's 2010 annual meeting of shareholders and the term of office of the Class III directors to expire at Resaca's 2011 annual meeting of shareholders, with each director to hold office until his or her successor shall have been duly elected and qualified.

Post-Merger:

The procedure for electing directors will remain the same. However, there will be seven directors on the Resaca board.

Shareholder Action by Written Consent:

Under TBOC §§ 6.201(b) and 6.202(b), any action required to be taken at an annual or special meeting of shareholders may be taken without a meeting if all shareholders entitled to vote with respect to the action consent in writing to such action or, if the corporation's charter so provides, if a consent in writing is signed by holders of shares having not less than the minimum number of votes necessary to take such action at a meeting at which holders of all shares entitled to vote on the action were present and voted.

Under DGCL § 228, any action by a corporation's stockholders must be taken at a meeting of such stockholders, unless a consent in writing setting forth the action so taken is signed by the stockholders having not less than the minimum number of votes necessary to authorize or take such action at a meeting at which all shares entitled to vote on the action were present and voted.

Cano's bylaws provide that Cano stockholders may act by written consent.

Resaca's charter does not allow shareholders to act by written consent.

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Removal of Directors:

Under TBOC § 21.409, except as otherwise provided by the charter or bylaws, at any meeting of shareholders called expressly for that purpose, the holders of a majority of the shares then entitled to vote at an election of directors may vote to remove any director or the entire board of directors, with or without cause. However, in the event the directors serve staggered terms, a director may not be removed except for cause unless the charter provides otherwise.	Under DGCL § 141(k), a majority of stockholders of a Delaware corporation then entitled to vote may remove a director with or without cause, unless the directors are classified and elected for staggered terms (in which case directors may be removed only for cause) and unless the corporation allows for cumulative voting
Resaca's charter establishes a classified board of directors and disallows cumulative voting.	Cano's charter does not establish a classified board of directors, and Cano's charter disallows cumulative voting. Therefore, Cano's directors may be removed by a majority of Cano's stockholders at any time, with or without cause.
Resaca's charter provides that any director or the entire Board of Directors may be removed from office at any time, but only by the affirmative vote of the holders of at least fifty percent (50%) of the voting power of all of the then-outstanding shares of capital stock of the Corporation then entitled to vote at an election of directors, voting together as a single class.	

Voting Rights:

Pre-Merger: Each common shareholder is entitled to one vote per share. However, the common shareholder is not entitled to vote on any amendment that relates solely to the terms of an outstanding series of preferred stock. There are no cumulative voting rights.	Each common stockholder is entitled to one vote per share.
	Each preferred stockholder is entitled to the whole number of votes equal to the lesser of (i) the number of shares of Cano common stock into which such holder's shares of Cano preferred stock would be convertible based on the conversion price of $5.75 per share (subject to adjustment pursuant to the Cano Preferred Stock Certificate of Designations) on the record date for the vote or consent of Cano stockholders, and (ii) the number of shares of Cano common stock into which such holder's shares of Cano preferred stock would be convertible if the conversion price on the record date for the vote or consent of stockholders is deemed to be $4.79 per share, as adjusted for any stock dividend, stock split, stock combination, reclassification or similar transaction.

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Post-Merger:

The rights of the common shareholder shall remain the same.

Each preferred shareholder is entitled to the whole number of votes equal to the lesser of (i) the number of shares of Resaca common stock into which such holder's shares of Resaca preferred stock would be convertible based on the conversion price of $4.963 (as adjusted for the Reverse Stock Split) per share (subject to adjustment pursuant to the Resaca Preferred Stock Certificate of Designations) on the record date for the vote or consent of Resaca shareholders, and (ii) the number of shares of Resaca common stock into which such holder's shares of Resaca preferred stock would be convertible if the conversion price on the record date for the vote or consent of shareholders is deemed to be $3.9705 (as adjusted for the Reverse Stock Split) per share, as adjusted for any stock dividend, stock split, stock combination, reclassification or similar transaction.

Adjournment of Shareholder Meetings:

If a quorum is not represented at a shareholder meeting, the chairman of the meeting may adjourn the meeting to another place, if any, date or time.

If a quorum is not represented at a stockholder meeting, the chairman of the meeting may adjourn the meeting to another place, if any, date or time.

Proxies:

At any meeting of Resaca shareholders, every shareholder entitled to vote may vote in person or by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting.

At any meeting of Cano stockholders, every stockholder entitled to vote may vote in person or by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting.

Director Nominations:

Resaca's bylaws establish procedures that shareholders must follow to nominate persons for election to Resaca's board of directors at an annual meeting of shareholders. The nomination for election to the board of directors may be made pursuant to Resaca's notice with respect to such annual meeting of shareholders, by or at the direction of the board of directors or by any shareholder of record who was a shareholder of record at the time of the giving of the notice who was entitled to vote at the meeting and who has complied with the notice procedures.

Cano's bylaws establish procedures that stockholders must follow to nominate persons for election to Cano's board of directors at an annual meeting of stockholders. The nomination for election to the board of directors may be made pursuant to Cano's proxy materials, by or at the direction of the board of directors, or by any stockholder of record of Cano who was entitled to vote at such meeting and who has complied with the notice procedures.

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Election of Directors:

TBOC § 21.405 provides that the holders of shares entitled to vote in the election of directors shall elect directors at the annual meeting. A corporation's charter may provide that the holders of a class or series of shares are entitled to elect one or more directors of the corporation.

Resaca's bylaws entitle its shareholders to elect directors by the vote of a plurality of the votes cast. Resaca's charter prohibits cumulative voting.

DGCL § 216(3) provides that, unless the charter or the bylaws specify otherwise, a corporation's directors are elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Under DGCL § 214, a corporation's charter may provide that stockholders of a corporation can elect directors by cumulative voting. DGCL § 141(d) permits, through implementation by the charter, the initial bylaws or bylaws adopted by vote of the stockholders, a classified board of directors, divided into as many as three classes.

Neither Cano's charter nor Cano's bylaws opt-out of the plurality voting standard. Cano's charter provides that cumulative voting is not permitted, and Cano's charter does not provide for a classified board.

Vacancies on the Board of Directors:

Under TBOC § 21.410(b), the shareholders at an annual or special meeting or a majority of the remaining directors (even if less than a quorum) may fill any vacancy occurring in the board of directors. Under TBOC § 21.410(d), a directorship to be filled by reason of an increase in the number of directors may be filled by the shareholders (at an annual or special meeting) or by the board of directors for a term of office continuing only until the next election of one or more directors by the shareholders. However, the board of directors may not fill more than two such vacancies during the period between any two successive annual meetings of shareholders.

Resaca's bylaws provide that a majority of directors then in office may choose a successor.

Under DGCL § 223(a)(1), unless otherwise provided in a corporation's charter or bylaws, a majority of the directors then in office (even though less than a quorum) or by a sole remaining director may fill vacancies and newly-created directorships resulting from an increase in the authorized number of directors elected by all the stockholders having the right to vote as a single class. However, DGCL § 223(c) provides that if the directors then in office constitute less than a majority of the whole board, the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the total number of shares at the time outstanding and entitled to vote for directors, order an election to be held to fill any such vacancy or newly created directorship.

Cano's charter provides that any vacancy in its board of directors, however caused or created, may be filled by the affirmative vote of a majority of the remaining directors, though less than a quorum of the board of directors. Cano's bylaws similarly provide that any vacancy in the board of directors is to be filled by the affirmative vote of a majority of the remaining directors of the Cano board, but the bylaws specify that this right is subject to the rights of any holders of preferred stock then outstanding.

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Special Meeting of Shareholders:

Under TBOC § 21.352, special meetings of the Resaca shareholders may be called by the Resaca board of directors, the President, others permitted by the charter or bylaws or holders of at least 10% of the shares entitled to vote at the meeting (provided that the charter may specify that this percentage is greater than 10% but not greater than 50%).	Under DGCL § 211(d), a special meeting of a corporation's stockholders may be called by the board or by any other person authorized by the corporation's certificate of incorporation or bylaws.
Resaca's bylaws provide that special meetings of the Resaca shareholders may be called at any time by the Board acting pursuant to a resolution adopted by a majority of the Whole Board.	Cano's bylaws allow special meetings to be called at any time pursuant to a resolution of the board of directors adopted by a majority of the whole board, by the Chief Executive Officer of Cano or by the record holder or holders of at least 10% of all shares entitled to vote at the meeting. Subject to applicable law, the board may postpone or reschedule any previously scheduled special meeting.

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Charter Amendments:

Under TBOC §§ 21.054 and 21.364, after a corporation has received payment for its capital stock, amendments to a corporation's charter must be approved by a resolution of the board of directors directing that the proposed amendment be submitted to a vote of the shareholders at a meeting and by the affirmative vote of a majority of the holders of at least two-thirds of the outstanding shares entitled to vote on the amendment.

If an amendment would (1) increase or decrease the number of authorized shares of such class, (2) increase or decrease the par value of the shares of such class (including eliminating the par value of the shares of such class), (3) effect an exchange, reclassification or cancellation of all or part of the shares of the class or series, (4) effect an exchange or create a right of exchange of all or part of the shares of another class or series into the shares of the class or series, (5) change the designations, preferences, limitations or relative rights of the shares of the class or series, (6) change the shares of the class or series (with or without par value) into the same or a different number of shares (with or without part value) of the same class or series or another class or series, (7) create a new class or series of shares with rights and preferences equal, prior or superior to the shares of the class or series, (8) increase the rights and preferences of a class or series with rights or preferences later or inferior to the shares of the class or series in such a manner that the rights or preferences will be equal, prior or superior to the shares of the class or series, (9) divide the shares of the class into series and set and determine the designation of the series and the variations in the relative rights and preferences between the shares of the series, (10) limit or deny existing preemptive or cumulative voting rights of the shares of the class or series, (11) cancel or otherwise affect the dividends on the shares of the class or series that have accrued but have not been declared or (12) include or delete from the charter provisions required or permitted to be included in the charter of a close corporation, then two-thirds of the shares of that class also must approve the amendment.

Under DGCL § 242(b), amendments to a corporation's charter must be approved by a resolution of the board of directors declaring the advisability of the amendment, and by the affirmative vote of a majority of the outstanding shares entitled to vote.

If an amendment would increase or decrease the number of authorized shares of such class, increase or decrease the par value of the shares of such class or alter or change the powers, preferences or other special rights of a class of outstanding shares so as to affect the class adversely, then a majority of shares of that class also must approve the amendment. The DGCL also permits a corporation to make provision in its charter requiring a greater proportion of voting power to approve a specified amendment.

Cano's charter does not contain any special provisions regarding approval of amendments to the Cano charter.

The Cano Preferred Stock Certificate of Designations provides that the affirmative vote or the written consent of the holders of at least a majority of the aggregate shares of Cano preferred stock then outstanding, voting together as a separate class, regardless of whether any such action shall be by means of an amendment to the Cano charter or by merger, consolidation or otherwise, shall be required to amend the Cano charter.

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The TBOC also permits a corporation to make provision in its charter requiring a lower proportion of voting power to approve a specified amendment, but not lower than a majority of the class.

Resaca's charter does not provide that a greater proportion of voting power is required to approve any amendment to its charter. Thus, the Resaca charter may be amended as provided under the TBOC (i.e. upon the affirmative vote of 50% of the outstanding common shares).

Bylaw Amendments:

Under TBOC § 21.057(c), the board of directors of may alter, amend or repeal the bylaws without shareholder approval, although bylaws made by the board of directors, and the power conferred upon the board of directors to amend such bylaws, may be altered or repealed by a two-thirds vote by the shareholders.

Resaca's charter provides that the board of directors is expressly empowered to adopt, amend, or repeal the Bylaws. Any adoption, amendment or repeal of the Bylaws by the Board shall require the approval or a majority of the Whole Board. Shareholders shall also have power to adopt, amend or repeal the Bylaws, provided that the affirmative vote of 50% of the holders entitled to vote shall be required.

Under DGCL § 109, the power to adopt, amend or repeal a corporation's bylaws resides with the stockholders entitled to vote on the bylaws, and with the directors of such corporation if such power is conferred upon the board of directors by the charter.

Cano's charter provides that Cano's bylaws may be amended by the board of directors of Cano, subject to repeal or change by a majority vote of Cano's stockholders.

The Cano Preferred Stock Certificate of Designations provides that the affirmative vote or the written consent of the holders of at least a majority of the aggregate shares of Cano preferred stock then outstanding, voting together as a separate class, regardless of whether any such action shall be by means of an amendment to the Cano charter or by merger, consolidation or otherwise, shall be required to amend the Cano bylaws.

Inspection of Books and Records:

Under TBOC § 21.218(b), subject to the governing documents of a corporation, any shareholder who holds at least 5% of all of the outstanding shares of a corporation or that has held its shares for at least six months is entitled, upon written demand stating a proper purpose, to examine at a reasonable time, the relevant books and records of account, minutes and share transfer records of the corporation.

Under DGCL § 220(b), any stockholder of a Delaware corporation making a proper written demand may inspect the stock ledger, the list of stockholders and any other corporate books and records for any purpose reasonably related to the stockholder's interest as a stockholder.

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Merger:

TBOC § 21.457(a) and (c) require the affirmative vote of the holders of at least two-thirds of the shares entitled to vote to approve a merger, or if any class of shares is entitled to vote as a class on the approval of a merger, the affirmative vote of the holders of at least two-thirds of the shares in each such class entitled to vote as a class and the affirmative vote of the holders of at least two-thirds of the shares otherwise entitled to vote. The same voting requirements apply for share exchanges or conversions. TBOC § 21.459 does not require a vote by the shareholders on a plan of merger, unless such a vote is required by the corporation's charter, if: (1) the corporation is the sole surviving corporation in the merger; (2) the charter of the surviving corporation will not differ from its charter before the merger; (3) each shareholder of the surviving corporation whose shares were outstanding immediately before the effective date of the merger will hold the same number of shares, with identical designations, preferences, limitations and relative rights immediately after the merger; (4) the sum of the voting power of the number of voting shares outstanding immediately after the merger and the voting power of securities that may be acquired on the conversion or exercise of securities issued under the merger does not exceed by more than 20% the voting power of the total number of voting shares of the corporation that are outstanding immediately before the merger; and (5) the sum of the number of participating shares that are outstanding immediately after the merger and the number of participating shares that may be acquired on the conversion or exercise of securities issued under the merger does not exceed by more than 20% the total number of participating shares of the corporation that are outstanding immediately before the merger.

DGCL § 251(b), (c), and (f) require approval of the board of directors and the affirmative vote of a majority of the outstanding shares entitled to vote on a merger in order to effect that merger. Unless required by its charter, no stockholder vote is required of a corporation surviving a merger if (1) such corporation's charter is not amended by the merger; (2) each share of such corporation will be an identical share of the surviving corporation after the merger; and (3) either no shares are to be issued by the surviving corporation or the number of shares to be issued in the merger does not exceed 20% of such corporation's outstanding common shares immediately before the effective date of the merger.

Cano's charter does not contain any super-majority voting requirements governing mergers.

The Cano Preferred Stock Certificate of Designations provides that the affirmative vote or the written consent of the holders of at least a majority of the aggregate shares of Cano preferred stock then outstanding, voting together as a separate class, regardless of whether any such action shall be by means of an amendment to the Cano charter or by merger, consolidation or otherwise, shall be required to approve a merger.

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Voting on Sale of Assets:

Under TBOC §§ 21.455(d) and 21.457(a) and (c), there is a requirement for the affirmative vote of the holders of at least two-thirds of the shares entitled to vote to approve the sale, lease, exchange or other disposition of all or substantially all the corporation's property and assets if other than in the usual and regular course of business, or if any class of shares is entitled to vote as a class on the approval of the sale, lease, exchange or other disposition of all or substantially all the corporation's assets, the vote required for approval of such transaction is the affirmative vote of the holders of at least two-thirds of the shares in each such class and the affirmative vote of the holders of at least two-thirds of the shares otherwise entitled to vote. TBOC § 21.457(a) and (c) do not require shareholder approval of a sale of assets in the usual and regular course of business unless otherwise specified in the charter. Under TBOC § 21.451(2)(A)-(B), a "sale of all or substantially all of the assets" means the sale, lease, exchange, or other disposition, other than a pledge, mortgage, deed of trust, or trust indenture unless otherwise provided by the charter, of all or substantially all of the property and assets of a domestic corporation that is not made in the usual and regular course of the corporation's business without regard to whether the disposition is made with the goodwill of the business. The term does not include a transaction that results in the corporation, directly or indirectly: (1) continuing to engage in one or more businesses or (2) applying a portion of the consideration received in connection with the transaction to the conduct of a business in which it engages after the transaction.

Under DGCL § 271(a), a corporation may not sell all or substantially all of its assets unless the proposed sale is authorized by a majority of the outstanding shares of voting stock of the corporation.

Cano's charter does not provide for a different vote than that required by Delaware law.

The Cano Preferred Stock Certificate of Designations provides that the affirmative vote or the written consent of the holders of at least a majority of the aggregate shares of Cano preferred stock then outstanding, voting together as a separate class, regardless of whether any such action shall be by means of an amendment to the Cano charter or by merger, consolidation or otherwise, shall be required to approve the sale by Cano of all or substantially all of the assets of Cano.

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Anti-Takeover Provisions:

TBOC §§ 21.601(1), 21.602, 21.604 and 21.606 provide that a Texas corporation with 100 or more shareholders, a Texas corporation with a class or series of the corporation's voting shares registered under the Securities Exchange Act of 1934 or a Texas corporation with a class or series of the corporation's voting shares qualified for trading in a national market system may not engage, directly or indirectly, in certain business combinations, including mergers and asset sales, with a person, or an affiliate or associate of such person, who is an "affiliated shareholder" (generally defined as the holder of 20% or more of the corporation's voting shares) for a period of three years from the date such person became an affiliated shareholder unless:

1. the business combination or purchase or acquisition of shares made by the affiliated shareholder was approved by the board of directors of the corporation before the affiliated shareholder became an affiliated shareholder, or
2. the business combination was approved by the affirmative vote of the holders of at least two-thirds of the outstanding voting shares of the corporation not beneficially owned by the affiliated shareholder or an affiliate or associate of the affiliated shareholder, at a meeting of shareholders called for that purpose (and not by written consent), not less than six months after the affiliated shareholder became an affiliated shareholder.

Under TBOC § 21.607, a Texas corporation may elect to opt out of these provisions. Resaca has not made such an election.

DGCL § 203 generally prohibits business combinations, including mergers, sales and leases of assets, issuances of securities and similar transactions by a corporation or a subsidiary with an interested stockholder (defined as including the beneficial owner of 15% or more of a corporation's voting shares), within three years after the person or entity becomes an interested stockholder, unless:

1. the board of directors has approved, before the acquisition date, either the business combination or the transaction that resulted in the person becoming an interested stockholder;
2. upon completion of the transaction that resulted in the person becoming an interested stockholder, the person owns at least 85% of the corporation's voting shares, excluding shares owned by directors who are officers and shares owned by employee stock plans in which participants do not have the right to determine confidentially whether shares will be tendered in a tender or exchange offer; or
3. at the time the person or entity becomes an interested stockholder or after the person or entity becomes an interested stockholder, the business combination is approved by the board of directors and authorized by the vote of at least $66^2/_3$% of the outstanding voting shares not owned by the interested stockholder at an annual or special meeting of stockholders and not by written consent.

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Under U.K. law, if (i) at any time when the Corporation is not subject to the U.K. City Code on Takeovers and Mergers or any successor or other regime (whether statutory or non-statutory) governing the conduct of takeovers and mergers in the United Kingdom (any of such being the "Takeover Regime"); (ii) any person (together with any persons held to be acting in concert with him, her or it, as defined in the Takeover Regime) acquires any interest in shares in the Corporation and as a result he, she or it (whether or not with the other persons) would (in the opinion of the Board of Directors) have been obliged under the Takeover Regime to extend an offer (a "Mandatory Offer") to the holders of any other securities in the Corporation had the Takeover Regime applied to the Corporation (such person or persons who would from time to time have been required to have made such an offer being the "Mandatory Offeror(s)"); and (iii) the Mandatory Offeror(s) fail(s) to make such an offer on terms no less favorable (in the opinion of the Board of Directors) to the other holders of securities than he/she/it/they would have been obliged to offer under the provisions of the Takeover Regime had it applied (a "Compliant Offer") within twenty-one (21) days following the date on which the obligation would have arisen, the Board of Directors shall be entitled, but not obliged, to suspend with immediate effect, with notification thereof being given to the Mandatory Offeror(s) or (if different) the registered holders of the shares in the Corporation in which they have an interest, all voting rights, all rights to receive notices of and attend meetings of the Corporation and all rights to receive dividends attributable to the shares in the Corporation in which the Board of Directors considers the Mandatory Offeror(s) from time to time to have an interest. Any such suspension may, at the discretion of the Board of Directors extend for any period during which the obligation to make a Mandatory Offer would have continued to exist under the Takeover Regime unless and until a Compliant Offer is made. The foregoing provisions shall only apply as long as the shares of capital stock of the Resaca are admitted to trading on AIM or are listed on the Official List.

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Appraisal Rights:

Under TBOC § 10.354(a), a shareholder generally has the right to dissent from any merger to which the corporation is a party, from any sale of all or substantially all assets of the corporation, or from any plan of exchange and to receive fair value for his or her shares. However, dissenters' rights are not available with respect to a plan of merger in which there is a single surviving corporation, or with respect to any plan of exchange, if (i) the shares held by the shareholder are part of a class or series, shares of which are listed on a national securities exchange, listed on the NASDAQ stock market, designated as a national market security on an interdealer quotation system by the National Association of Security Dealers, Inc. or held of record by not less than 2,000 holders on the record date fixed to determine the shareholders entitled to vote on the plan of merger or the plan of exchange, (ii) the shareholder is not required by the terms of the plan of merger or plan of exchange to accept for the shareholder's shares any consideration that is different than the consideration (other than cash in lieu of fractional shares) to be provided to any other holder of shares of the same class or series held by such shareholder, and (iii) the shareholder is not required by the terms of the plan of merger or plan of exchange to accept for his or her shares any consideration other than (a) shares of a corporation that, immediately after the effective time of the merger or exchange, will be part of a class or series of shares that are (1) listed, or authorized for listing upon official notice of issuance, on a national securities exchange, (2) approved for quotation on the NASDAQ National Market System, or (3) held of record by not less than 2,000 holders, and (b) cash in lieu of fractional shares otherwise entitled to be received.

Resaca common shareholders are not entitled to appraisal rights in connection with the merger.

Under DGCL § 262, stockholders have appraisal rights when they hold their shares in the corporation through the effective date of a merger or consolidation, have not voted in favor of the merger or consolidation, and the corporation's shares are not listed on a national securities exchange or held by more than 2,000 holders.

Cano's common stockholders are not entitled to appraisal rights; however, Cano's preferred stockholders are entitled to appraisal rights in connection with the merger.

For more information see Annex E.

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Limitation of Liability of Directors:

Under TBOC §§ 8.003 and 8.102, a corporation's charter may eliminate all monetary liability of each director to the corporation or its shareholders for acts or omissions in the director's capacity as a director other than conduct specifically excluded from protection. Under TBOC §§ 8.101 and 8.102(b)(3), Texas law does not permit any limitation of liability of a director found liable for:

1. willful or intentional misconduct in the performance of the person's duty to the enterprise;
2. breaching the duty of loyalty to the corporation; or
3. an act or omission not committed in good faith that constitutes a breach of the duty owed to the corporation.

Resaca's charter provides for the limitation of liability of its directors, except for liability for (i) any breach of the director's duty of loyalty to Resaca or its shareholders, (ii) an act or omission not in good faith that constitutes a breach of duty of the director or involves intentional misconduct or a knowing violation of law, (iii) any transaction from which the director derived an improper personal benefit, regardless of whether the benefit resulted from an action taken within the scope of the director's duties, or (iv) an act or omission for which liability of a director is expressly provided by an applicable statute.

DGCL § 102(b)(7) provides that a corporation, in its charter, may limit or eliminate a director's personal liability for monetary damages to the corporation or its stockholders for breach of fiduciary duty as a director, except for liability for:

1. any breach of the director's duty of loyalty to such corporation or its stockholders;
2. acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
3. willful or negligent violation of provisions of the DGCL governing unlawful payment of dividends and unlawful stock purchases or redemptions;
4. for any transaction from which the director derived an improper personal benefit; or
5. any act or omission occurring prior to the adoption of such a provision in the charter.

Cano's charter provides that a director shall not be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, subject to the same limitations as set forth in DGCL § 102(b)(7). Cano's charter also provides that no director shall be personally liable for any injury to person or property arising out of a tort committed by an employee of Cano unless such director was personally involved in the situation giving rise to the injury or unless such director committed a criminal offense.

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Indemnification of Officers and Directors and Advancement of Expenses:

TBOC § 8.102 permits a corporation to indemnify any person who has been or is threatened to be made a party to a legal proceeding because he is or was a director of the corporation, or because he served at the request of the corporation as a principal of another business or employee benefit plan, against any judgments, penalties, fines, settlements and reasonable expenses actually incurred by him in connection with the proceeding. However, under TBOC § 8.101, a corporation may not indemnify a director in reliance on this statute unless the director (1) conducted himself in good faith, (2) reasonably believed that his conduct was in the best interests of the corporation or, in the case of action not taken in his official capacity, was not opposed to the best interests of corporation, and (3) in the case of a criminal proceeding, had no reasonable cause to believe that his conduct was unlawful.

TBOC § 8.051(a) provides that a corporation is required to indemnify any director or officer of the corporation who has been or is threatened to be made a party to a legal proceeding by reason of his service to the corporation if the director or officer is successful on the merits or otherwise in the defense of such proceeding. In addition, under TBOC § 8.151(b), a corporation may purchase and maintain on behalf of its directors and officers insurance with respect to any liability asserted against or incurred by such persons, whether or not the corporation would have the power under applicable law to indemnify such persons.

Cano's charter provides that a director shall not be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exculpation is not permitted under the DGCL. Cano's charter also provides that no director shall be personally liable for any injury to person or property arising out of a tort committed by an employee of Cano unless such director was personally involved in the situation giving rise to the injury or unless such director committed a criminal offense.

Cano's bylaws similarly provide for indemnification of directors and officers, to the fullest extent provided under Delaware law, for expense, liability and loss (including attorneys' fees) incurred in connection with a suit brought by reason of the fact the director or officer was serving as a director or officer. Cano's bylaws also provide for the payment of expenses (including attorneys' fees) incurred by a director or officer in defending such a suit.

DGCL § 145(b) permits a corporation to indemnify its officers, directors and other agents as long as (1) the director acted in good faith; (2) the director acted in a manner the director reasonably believed to be in the best interests of the corporation or not opposed to the best interests of the corporation; and (3) the director has not been adjudged liable for the claim, issue or matter (unless and only to the extent that the Delaware Court of Chancery or court in which the action or suit was brought determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the director is fairly and reasonably entitled to indemnification for expenses).

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TBOC § 8.102(b) permits a corporation to indemnify a director for reasonable expenses actually incurred by the director in connection with the proceeding (and not for a judgment, penalty, fine, or excise or similar tax) if the director has not been found liable to the corporation or is found to have received an improper personal benefit. TBOC § 8.104 permits a corporation to pay reasonable expenses of a director in advance of the final disposition of a proceeding for which indemnification may be provided on the condition that the corporation first receives (1) a written affirmation by the director of his good faith belief that he has met the standard of conduct necessary for indemnification, and (2) a written undertaking by or on behalf of the director that he will repay such expenses if it is ultimately determined that he is not entitled to be indemnified. TBOC § 8.105 allows a corporation to indemnify and advance expenses to its officers, employees and other agents to the same extent that it allows a corporation to indemnify and advance expenses to directors.

Resaca's charter documents authorize indemnification of officers, directors and others to the fullest extent authorized or permitted by applicable law.

DGCL § 145(c) provides that a corporation is required to indemnify any director or officer of the corporation who has been or is threatened to be made a party to a legal proceeding by reason of his service to the corporation if the director or officer is successful on the merits or otherwise in the defense of such proceeding. In addition, under DGCL § 145(g), a corporation may purchase and maintain on behalf of its directors and officers insurance with respect to any liability asserted against or incurred by such persons, whether or not the corporation would have the power under applicable law to indemnify such persons.

DGCL § 145(e) permits a corporation to pay expenses (including attorneys' fees) of a director or officer incurred in defending any civil, criminal, administrative or other investigative action, suit or proceeding in advance of a final disposition of a proceeding if the director or officer provides the corporation with an undertaking to repay such expenses if it is ultimately determined that the director or officer is not entitled to be indemnified. A corporation also is permitted to pay expenses incurred by former directors and officers and other employees and agents upon such terms and conditions, if any, as the corporation deems appropriate.

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REVERSE STOCK SPLIT

Resaca is asking its shareholders at its annual meeting to approve an amendment to its charter to effect a reverse split of the outstanding shares of Resaca common stock by a ratio of one-for-five immediately prior to the Merger and the Share Issuances such that for every five pre-split shares of Resaca common stock held by a Resaca shareholder, such shareholder would be entitled to one post-split share of Resaca common stock, fractional shares being rounded down to the nearest full post-split share. Should the proposal be adopted by the Resaca shareholders, each shareholder's percentage ownership interest in Resaca and proportional voting power will remain unchanged immediately prior to the Merger and the Share Issuances, except for minor differences resulting from adjustments for fractional shares. The rights and privileges of the holders of shares of Resaca common stock will be substantially unaffected by the adoption of the proposal.

Purpose

Resaca is proposing the Reverse Stock Split to increase the stock price for shares of Resaca common stock immediately prior to the merger so that the minimum listing requirements of the NYSE Amex can be satisfied. The NYSE Amex requires all new securities listing on its market to have a minimum market price of $2.00 per share. The effect of this Reverse Stock Split will be to increase the stock price in the same proportion as the number of shares is adjusted downward, resulting in a five times increase in the market price for Resaca common stock on the AIM on the day prior to the completion of the merger and the listing of Resaca common stock on the NYSE Amex. It is a condition precedent to the merger that Resaca common stock be listed on the NYSE Amex.

Principal Effects of the Reverse Stock Split

If approved by the Resaca shareholders and implemented by the Resaca board of directors, the Reverse Stock Split would occur immediately prior to the merger for all Resaca common stock and the ratio of post-split shares for pre-split shares would be the same for all of such shares of Resaca common stock. The Reverse Stock Split would affect all Resaca shareholders uniformly and would not affect any shareholder's percentage ownership interest in Resaca immediately prior to the merger. In addition, the Reverse Stock Split would not affect any Resaca shareholder's proportionate voting rights. Each share of Resaca common stock outstanding after the Reverse Stock Split would be entitled to one vote and would remain fully paid and non-assessable.

The principal effects of the Reverse Stock Split would be that:

- based on shares outstanding as of May 28, 2010 and assuming a one-for-five reverse stock split, the number of shares of Resaca common stock issued and outstanding would be reduced from 96,947,494 shares to approximately 19,389,499, a decrease of 77,557,995 shares or 80%;

- the exercise price and/or the number of shares of Resaca common stock issuable under Resaca's outstanding stock options would be proportionately adjusted based on the same ratio; and

- the number of shares of Resaca common stock reserved for issuance under the Incentive Plan would be reduced proportionally before the implementation of the Incentive Plan Amendment.

No scrip or fractional certificates will be issued in connection with the Reverse Stock Split. Instead, any fractional share that results from the Reverse Stock Split will be exchanged for cash in an amount equal to the closing price on the effective date of the merger.

A reduction in the number of outstanding shares of Resaca common stock could result in decreased liquidity in the combined company's common stock. In addition, the Reverse Stock Split could result in some Resaca shareholders owning "odd lots" of less than one hundred (100) shares of the Resaca common stock on a post-split basis. Odd lots may be more difficult to sell, or may require

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greater transaction costs per share to sell than do "board lots" of even multiples of one hundred (100) shares.

The amendment to the Resaca charter is included as Annex C to this proxy statement.

Effect on Authorized Shares

The number of authorized shares of Resaca common stock would not be affected by the Reverse Stock Split. Resaca would continue to have 230 million shares of Resaca common stock and 20 million shares of undesignated Resaca preferred stock immediately following the Reverse Stock Split; provided, however, that 49,116 shares of such stock shall be designated as Series A Convertible Preferred Stock in connection with the merger. Based on shares outstanding as of the record date of May 21, 2010, and following the merger and approval of the Incentive Plan Amendment, approximately 4,090,037 shares of Resaca's common stock will be available for future issuance under the Incentive Plan. Resaca's board of directors may issue capital stock for proper corporate purposes that may be identified in the future, such as to raise capital through the issuance of securities, to make acquisitions using securities as consideration, to issue securities in connection with strategic relationships with other companies, and to adopt additional employee benefit plans or reserve additional shares for issuance under such plans. Resaca has no current plans to issue additional shares of capital stock at this time, other than as already disclosed in this registration statement.

Potential Anti-Takeover Effect

Although the increased proportion of unissued authorized shares to issued shares could, under certain circumstances, have an anti-takeover effect (for example, by permitting issuances that would dilute the stock ownership of a person seeking to effect a change in the composition of the Resaca board of directors or contemplating a tender offer or other transaction for the combination of Resaca with another company), the Reverse Stock Split proposal is not being proposed in response to any effort of which we are aware to accumulate Resaca's common stock or obtain control of Resaca, other than the merger, nor is it part of a plan by management to recommend a series of similar amendments to Resaca board of directors and shareholders. Other than the Reverse Stock Split proposal, the Resaca board does not currently contemplate recommending the adoption of any other amendments to Resaca's charter that could be construed to affect the ability of third parties to take over or change the control of Resaca.

Effect on Accounting Matters

The Reverse Stock Split would not affect the par value of Resaca's common stock. As a result, on the effective date of the Reverse Stock Split, the stated capital on Resaca's balance sheet attributable to Resaca's common stock would be reduced in proportion to the ratio of the reverse split. The per share net income or loss and net book value of Resaca common stock would be increased because there would be fewer shares of Resaca common stock outstanding.

No Dissenter's Rights

Under the TBOC, Resaca's shareholders are not entitled to dissenter's rights with respect to the Reverse Stock Split, and Resaca will not independently provide shareholders with any such right.

Federal Income Tax Consequences of the Reverse Stock Split

The following is a summary of certain material United States federal income tax consequences of the Reverse Stock Split and does not purport to be a complete discussion of all of the possible federal income tax consequences of the Reverse Stock Split and is included for general information only. Further, it does not address any state, local or foreign income or other tax consequences. For example, the state and local tax consequences of the Reverse Stock Split may vary significantly as to each shareholder, depending upon the state in which he or she resides. Also, it does not address the tax consequences to holders that are subject to special tax rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident alien individuals, broker-dealers and tax-exempt entities. The discussion is based on the provisions of the United States federal income tax law as of the date hereof, which is subject to change retroactively as well as prospectively. This summary also assumes that the pre-split shares were, and the post-split shares would be, held as a "capital asset," as defined in the Internal Revenue Code (i.e., generally, property held for investment). The tax treatment of a Resaca shareholder may vary depending upon the particular facts and circumstances of such shareholder.

No gain or loss should be recognized by a Resaca shareholder upon such shareholder's exchange of pre-split shares for post-split shares pursuant to the Reverse Stock Split. The aggregate tax basis of the post-split shares received in the Reverse Stock Split should be the same as the Resaca shareholder's aggregate tax basis in the pre-split shares exchanged therefor. The Resaca shareholder's holding period for the post-split shares should include the period during which the shareholder held the pre-split shares surrendered in the Reverse Stock Split.

OUR VIEW REGARDING THE TAX CONSEQUENCES OF THE REVERSE STOCK SPLIT IS NOT BINDING ON THE INTERNAL REVENUE SERVICE OR THE COURTS.

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INCENTIVE PLAN AMENDMENT

The Resaca board of directors adopted, subject to shareholder approval and contingent upon approval and consummation of the merger, the Incentive Plan Amendment pursuant to a Unanimous Written Consent of the Board of Directors dated April 1, 2010. The Incentive Plan Amendment amends the Incentive Plan (as amended herein referred to as the "Amended Incentive Plan") and includes (i) an increase in the number of shares of Resaca common stock (after giving effect to the Reverse Stock Split) authorized, subject to any shares previously granted, for grants and awards under the Amended Incentive Plan by 4,000,000 shares from 1,845,175 to 5,845,175 shares; and (ii) the prohibition of the repricing of any stock option or stock appreciation right granted under the Incentive Plan.

The Amended Incentive Plan provides for the granting of stock options, stock appreciation rights, restricted stock and other awards that may be paid in cash or Resaca common stock. The Amended Incentive Plan provides Resaca with flexibility to adapt the compensation of key employees to a changing business environment, after giving due consideration to competitive conditions and the impact of federal tax laws. Based on the amount of historical grants and potential future grants, Resaca believes the Incentive Plan Amendment, to be implemented simultaneously with the merger and following the Reverse Stock Split, is necessary in order to reserve for issuance under the Amended Incentive Plan an adequate number of shares of Resaca common stock to (i) implement the conversion of all outstanding Cano stock options into options to purchase Resaca common stock issued under the Amended Incentive Plan and (ii) fund potential future awards under the Amended Incentive Plan following the completion of the merger. The board of directors of Resaca believes that 4,000,000 additional shares of Resaca common stock, which number of shares has been adjusted for the Reverse Stock Split, represents a reasonable amount of potential equity dilution and allows the combined company to continue awarding stock options, restricted stock and other equity incentive awards, which are an important component of the combined company's overall compensation program. As of May 28, 2010 and assuming that the approval of the Reverse Stock Split had occurred on May 28, 2010, only 563,715 shares of Resaca common stock would have been available for the issuance of awards under the Incentive Plan. Approximately 473,678 shares of Resaca common stock must be available under the Incentive Plan for the conversion of the Cano stock options. Following the conversion of the Cano stock options, the Amended Incentive Plan would only have 90,037 shares available for issuance but for the Incentive Plan Amendment. Following the merger, the Reverse Stock Split and the Incentive Plan Amendment, 4,090,037 shares of Resaca common stock will be available for awards under the Incentive Plan. Resaca believes that prohibiting the repricing of any stock option or stock appreciation right granted under the Incentive Plan aligns the Amended Incentive Plan with our historical granting practices. The Resaca board of directors believes that the Incentive Plan Amendment is in the best interests of Resaca and its shareholders.

Description of the Incentive Plan Amendment

On April 1, 2010, the Resaca board of directors approved, (i) subject to Resaca shareholder approval, simultaneously with the merger and following the Reverse Stock Split, an increase of 4,000,000 shares of Resaca common stock that may be issued under the Incentive Plan from 1,845,175 to 5,845,175 shares and (ii) the prohibition of the repricing of any awards granted under the Incentive Plan.

The following summary describes the material features of the Incentive Plan as amended by the Incentive Plan Amendment. The summary is qualified in its entirety by the full text of the Incentive Plan, which is included as Annex I to this proxy statement, and the Incentive Plan Amendment, which is included as Annex J to this proxy statement.

Description of Amended Incentive Plan

The purpose of the Amended Incentive Plan is to foster and promote the long-term financial success of Resaca and to increase Resaca shareholder value by attracting, motivating and retaining key employees, consultants and outside directors and providing such participants in the Amended Incentive Plan with a program for obtaining an ownership interest in Resaca that links and aligns their personal interests with those of Resaca shareholders, thus enabling such participants to share in the long-term growth and success of Resaca. To accomplish these goals, the Amended Incentive Plan permits the granting of incentive stock options, non statutory stock options, stock appreciation rights, restricted stock, and other stock-based awards, some of which may require the satisfaction of performance-based criteria in order to be payable to participants. The Amended Incentive Plan is an important component of the total compensation package offered to employees and outside directors, reflecting the importance that Resaca places on motivating and rewarding superior results with long-term, performance-based incentives. The following is a summary of the principal features of the Amended Incentive Plan and its operation.

Administration. The Amended Incentive Plan is administered by a committee (the "Committee") appointed by the board of directors. The Committee is composed of at least two directors who qualify as "outside directors" under Section 162(m) of the Internal Revenue Code, and/or as "non-employee directors" under Rule 16b-3 promulgated under the US Exchange Act. Subject to the terms of the Amended Incentive Plan, the Committee has the power to select the persons eligible to receive awards under the Amended Incentive Plan, the type and amount of incentive awards to be awarded, and the terms and conditions of such awards. To the extent permitted by applicable law, the Committee may delegate its authority under the Amended Incentive Plan described in the preceding sentence to officers or other employees of Resaca. The Committee also has the authority to interpret the Amended Incentive Plan and establish, amend or waive rules necessary or appropriate for the administration of the Amended Incentive Plan.

Eligibility. Any employee or consultant of Resaca or a subsidiary of Resaca or an outside director of Resaca who, in the opinion of the Committee, is in a position to contribute to the growth, development or financial success of Resaca is eligible to participate in the Amended Incentive Plan. As of May 28, 2010, approximately 108 employees (29 of whom are employed by Resaca, 59 of whom are employed by Cano plus an additional 20 employees are co-employed by Torch and Resaca), 0 consultants and 5 outside directors are eligible to participate in the Amended Incentive Plan. In any calendar year, no covered employee described in Section 162(m) of the Internal Revenue Code or applicable U.S. Treasury regulations may be granted (in the case of stock options and stock appreciation rights), or have vest (in the case of restricted stock or other stock-based awards), awards relating to more than 553,552 shares of Resaca common stock (after giving effect to the Reverse Stock Split) outstanding at the time such awards are granted, and the maximum aggregate cash payout with respect to incentive awards paid in cash to such covered employees may not exceed $2,000,000.

Resaca common stock subject to the Amended Incentive Plan. The maximum number of shares of Resaca common stock that may be delivered pursuant to awards granted under the Amended Incentive Plan is 5,845,175. Any shares subject to an award under the Amended Incentive Plan that are forfeited or terminated, expire unexercised, lapse or are otherwise cancelled in a manner such that the shares covered by such award are not issued may again be used for awards under the Amended Incentive Plan. All of the Resaca common stock subject to the Amended Incentive Plan may be issued upon exercise of incentive stock options. The maximum number of shares deliverable pursuant to awards granted under the Amended Incentive Plan is subject to adjustment by the Committee in the event of certain dilutive changes in the number of outstanding shares. Under the Amended Incentive Plan, Resaca may issue authorized but unissued shares, treasury shares, or shares purchased by Resaca on the open market or otherwise. The number of shares of Resaca common stock available for future awards is reduced by the net number of shares issued pursuant to an award.

Transferability. Rights under any award may not be transferred except by will or the laws of descent and distribution or a qualified domestic relations order. However, the Committee may, in its discretion, authorize in the applicable award agreement the transfer, without consideration, of all or a portion of a nonstatutory stock option by a participant in the plan to family members, trusts and entities owned by family members.

Amendment of the Amended Incentive Plan. The Resaca board of directors has the power and authority to terminate or amend the Amended Incentive Plan at any time; provided, however, the board of directors may not, without the approval of Resaca shareholders:

(i) other than as a result of a dilutive event, increase the maximum number of shares which may be issued under the Amended Incentive Plan;

(ii) amend the requirements as to the class of employees eligible to purchase Resaca common stock under the Amended Incentive Plan;

(iii) extend the term of the Amended Incentive Plan;

(iv) increase the maximum limits on awards to covered employees as set for compliance with Section 162(m) of the Internal Revenue Code or applicable U.S. Treasury regulations; or

(v) decrease the authority granted to the Committee under the Plan in contravention of Rule 16b-3 under the Exchange Act.

In addition, to the extent that the Committee determines that the listing requirements of any national securities exchange or quotation system on which the Resaca common stock is then listed or quoted, or the Internal Revenue Code or regulations promulgated thereunder, require Resaca shareholder approval in order to maintain compliance with such listing requirements or to maintain any favorable tax advantages or qualifications, then the Amended Incentive Plan shall not be amended without approval of Resaca shareholders. No amendment to the Amended Incentive Plan may adversely affect any rights of a holder of an outstanding award under the Amended Incentive Plan without such holder's consent.

Change in control. Unless provided otherwise in the applicable award agreement, in the event of a change in control, all outstanding awards shall become 100% vested, free of all restrictions, immediately and fully exercisable, and deemed earned in full and payable as of the day immediately preceding the change in control. A "change in control" means the occurrence of any one or more of the following events:

(i) the acquisition by any individual, entity or group of beneficial ownership of 50 percent. or more of the Resaca common stock or combined voting power;

(ii) individuals who constitute the board of directors as of the effective date of the Amended Incentive Plan, or successors to such members approved by the board of directors, cease for any reason to constitute at least a majority of the board of directors during a 12-month period;

(iii) the consolidation, merger or the sale or other disposition of all or substantially all of the assets of Resaca; or

(iv) the adoption of any plan or proposal for the liquidation or dissolution of Resaca.

The Resaca board of directors may determine that any of the events described above will not constitute a change in control.

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Award agreements and term. All awards under the Amended Incentive Plan will be authorized by the Committee and evidenced by an award agreement setting forth the type of incentive being granted, the vesting schedule, and other terms and conditions of exercisability. No incentive stock options may be exercisable for more than ten years from the date of grant, or, in the case of an incentive stock option granted to an employee who owns or is deemed to own more than 10% of the Resaca common stock, five years from the date of grant. In no event, however, may incentive stock options be granted after the expiration of ten years from the effective date of the Amended Incentive Plan.

Stock options. A grant of a stock option entitles a participant to purchase from Resaca a specified number of Resaca common stock at a specified price per share. In the discretion of the Committee, stock options may be granted as non statutory stock options or incentive stock options, but incentive stock options may only be granted to employees of Resaca or a subsidiary. The aggregate fair market value of the Resaca common stock with respect to which incentive stock options become first exercisable by any participant during any calendar year cannot exceed $100,000.

The Committee may fix any price as the exercise price at which a share of Resaca common stock may be purchased under a stock option, provided that such exercise price must be at least equal to the fair market value of the Resaca common stock on the date of grant, or, if an incentive stock option is granted to an employee who owns or is deemed to own more than 10% of the Resaca common stock, 110 percent of the fair market value of the Resaca common stock on the date of grant. The exercise price for Resaca common stock acquired on exercise of a stock option must be paid in cash, or, if approved by the Committee, delivery of Resaca common stock with a fair market value equal to the exercise price of the stock option, the withholding of shares that would otherwise be issuable upon exercise, participation in a broker-assisted "cashless exercise" arrangement, or payment of any other form of consideration acceptable to the Committee.

Stock appreciation rights ("SARs"). The grant of a SAR provides the holder with the right to receive a payment in Resaca common stock equal to the excess of the fair market value of a specified number of Resaca common stock on the date the SAR is exercised over a SAR price specified in the applicable award agreement. The SAR price specified in an award agreement must be equal to or greater than the fair market value of Resaca common stock on the date of the grant of the SAR.

Restricted stock. A grant of restricted stock is an award of Resaca common stock subject to restrictions or limitations set forth in the Amended Incentive Plan and in the related award agreement. The award agreement for restricted stock will specify the time or times within which such award may be subject to forfeiture and any performance goals which must be met in order to remove any restrictions on such award. Except for limitations on transfer or limitations set forth in the applicable award agreement, holders of restricted stock shall have all of the rights of a Resaca shareholder, including the right to vote the shares, and, if provided in the applicable award agreement, the right to receive any dividends thereon.

Other awards. The Committee may grant to any participant other forms of awards payable in Resaca common stock or cash. The terms and conditions of such other form of award shall be specified by the applicable award agreement. Such other awards may be granted for no cash consideration, other than services already rendered, or for such other consideration as may be specified by the award agreement.

Performance-based awards. Awards may be granted under the Amended Incentive Plan that are subject to the attainment of pre-established performance goals over a specified performance period. Performance-based awards may be payable in stock or cash. The award agreement for a performance-based award will specify the performance period, the performance goals to be achieved during the performance period, and the maximum or minimum settlement values. Performance goals set by the Committee may relate to profits, return measures, cash flows, earnings and other objective performance

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criteria set forth in the Amended Incentive Plan that the Committee believes to be relevant to Resaca's business.

Termination of employment, death, disability and retirement. Unless otherwise provided in an award agreement, upon the termination of a participant's employment the non-vested portions of all outstanding awards will terminate immediately. Subject to different provisions in an award agreement, the period during which vested awards may be exercised following a termination of employment are described below. If a participant's employment is terminated for any reason other than as a result of death, disability, retirement or for cause, the vested portion of such award is exercisable for the lesser of the expiration date set forth in the applicable award agreement or 90 days after the date of termination of employment. In the event of the termination of participant's employment for cause, all vested awards immediately expire. Upon a participant's retirement, any vested award shall expire on the earlier of the expiration date set forth in the award agreement for such award or one (1) year after the date of retirement (three months in the case of incentive stock options). Upon the death or disability of a participant, any vested award shall expire on the earlier of the expiration date set forth in the award agreement or the first anniversary date of the participant's death or disability.

Repricing. No stock option or SAR granted to a covered employee under the Amended Incentive Plan may be repriced unless approved in advance by Resaca's shareholders.

Plan Benefits. Future benefits under the Amended Incentive Plan are not currently determinable. Our management has a financial interest in this proposal because they are potentially eligible for awards under the Amended Incentive Plan. The following table indicates shares (under grants of restricted shares and options) awarded under the Amended Incentive Plan during the fiscal year ended June 30, 2009 to the named executive officers, to all executive officers as a group, the non-employee directors as a group and to all employees (excluding executive officers) as a group:

	Shares Awarded in Fiscal 2009		
Name and Position		**Dollar Value(1)**	**Number of Shares**
J.P. Bryan, Chairman of the Board	$	618,999	230,647
John J. Lendrum, III, Vice Chairman and Chief Executive Officer	$	2,475,995	922,587
Chris B. Work, Vice President and Chief Financial Officer	$	1,237,999	461,294
Dennis Hammond, President and Chief Operating Officer(2)	$	3,953,727	2,306,468
Randy Ziebarth, Vice President Operations	$	1,237,999	461,294
Mary Lou Fry, Vice President, General Counsel, and Secretary	$	1,237,999	461,294
Michael J. Ricketts, Vice President and Principal Accounting Officer(3)	$		
Robert Porter, Vice President of Engineering(4)	$		
Phillip B. Feiner, Vice President, General Counsel and Secretary(3)			
All executive officers (7 persons)	$	10,638,918	4,797,455
All directors, excluding Messrs. Bryan and Lendrum (3 persons)(5)	$	1,582,803	784,200
All employees, excluding executive officers	$		

(1) The dollar value is based on the grant date fair value of the awards computed in accordance with ASC 718.

(2) Mr. Hammond's award included 922,587 shares of restricted stock and 1,383,881 options to purchase shares.

(3) It has been determined that Messrs. Ricketts and Feiner would have been named executive officers of the combined company as of June 30, 2009, assuming the merger had been consummated.

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However, neither Mr. Ricketts nor Mr. Feiner were employed by Resaca on June 30, 2009 and had any shares outstanding under the Incentive Plan.

(4) Mr. Porter did not receive any amount of restricted stock or stock option awards in fiscal 2009.

(5) Includes Mr. Plato, who will not be a director upon effectiveness of the merger but was a director on June 30, 2009.

Federal Income Tax Consequences

The following is a general summary as of the date hereof of the U.S. federal income tax consequences associated with the grant of awards under the Amended Incentive Plan. The federal tax laws may change and the federal, state and local tax consequences for any participant will depend upon his or her individual circumstances. Also, this information may not be applicable to employees of foreign subsidiaries or to participants who are not residents of the United States. Participants have been, and are, encouraged to seek the advice of a qualified tax advisor regarding the tax consequences of participation in the Amended Incentive Plan.

Nonstatutory stock options. A participant receiving a nonstatutory stock option that has been issued with an exercise price not less than the fair market value of the Resaca common stock on the grant date will not recognize income, and Resaca will not be allowed a deduction, at the time such an option is granted. When a participant exercises a nonstatutory stock option, the difference between the option price and any higher market value of the stock on the date of exercise will be ordinary income to the participant and will be claimed as a deduction for federal income tax purposes by Resaca. When a participant disposes of shares acquired by the exercise of the option, any amount received in excess of the fair market value of the shares on the date of exercise will be treated as short-term or long-term capital gain, depending upon whether the participant held the shares for more than one year following the exercise of the option. If the amount received is less than the fair market value of the shares on the date of exercise, the loss will be treated as short-term or long-term capital loss, depending upon whether the participant held the shares for more than one year following the exercise of the option.

Incentive stock options. Incentive stock options granted under the Amended Incentive Plan are intended to meet the definitional requirements of Section 422 of the Internal Revenue Code for "incentive stock options." A participant receiving a grant of incentive stock options will not recognize income and Resaca will not be allowed a deduction at the time such an option is granted. When a participant exercises an incentive stock option while employed by Resaca or its subsidiary or within the three month (one year for disability) period after termination of employment, no ordinary income will be recognized by the participant at that time (and no deduction will be allowed to Resaca), but the excess of the fair market value of the shares acquired by such exercise over the option price will be taken into account in determining the participant's alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to individuals. If the shares acquired upon exercise are not disposed of until more than two years after the date of grant and one year after the date of transfer of the shares to the participant (statutory holding periods), the excess of the sale proceeds over the aggregate option price of such shares will be long term capital gain, and Resaca will not be entitled to any federal income tax deduction. Except in the event of death, if the shares are disposed of prior to the expiration of the statutory holding periods (a "Disqualifying Disposition"), the excess of the fair market value of such shares at the time of exercise over the aggregate option price (but not more than the gain on the disposition if the disposition is a transaction on which a loss, if sustained, would be recognized) will be ordinary income at the time of such Disqualifying Disposition (and Resaca or its subsidiary will be entitled to a federal tax deduction in a like amount), and the balance of the gain, if any, will be capital gain (short-term or long-term depending upon whether the participant held the shares for more than one year following the exercise of the option). To the extent that the aggregate fair market value of stock (determined on the date of grant) with respect to which incentive options

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become exercisable for the first time during any calendar year exceeds $100,000, such excess options will be treated as nonstatutory options.

Payment using shares. If a participant pays the exercise price of a nonstatutory or incentive stock option with previously owned Resaca common stock and the transaction is not a Disqualifying Disposition, the shares received equal to the number of shares surrendered are treated as having been received in a tax free exchange. The shares received in excess of the number surrendered will not be taxable if an incentive stock option is being exercised, but will be taxable as ordinary income to the extent of their fair market value if a nonstatutory stock option is being exercised. The participant does not recognize income and Resaca receives no deduction as a result of the tax free portion of the exchange transaction. If the use of previously acquired incentive stock option shares to pay the exercise price of another incentive stock option constitutes a Disqualifying Disposition, the tax results are as described in the preceding paragraph. The income treatment will apply to the shares disposed of, but will not affect the favorable tax treatment of the shares received.

Stock appreciation rights and restricted stock. A participant receiving a grant of SARs or restricted stock under the Amended Incentive Plan will not recognize income, and Resaca will not be allowed a deduction, at the time such award is granted, unless the participant makes the election described below with respect to restricted stock. While an award remains unvested or otherwise subject to a substantial risk of forfeiture, a participant will recognize compensation income equal to the amount of any dividends received and Resaca will be allowed a deduction in a like amount. When an award vests or otherwise ceases to be subject to a substantial risk of forfeiture, the excess of the fair market value of the award on the date of vesting or the cessation of the substantial risk of forfeiture over the amount paid, if any, by the participant for the award will be ordinary income to the participant and will be claimed as a deduction for federal income tax purposes by Resaca. Upon disposition of the shares received, the gain or loss recognized by the participant will be treated as capital gain or loss, and the capital gain or loss will be short-term or long-term depending upon whether the participant held the shares for more than one year following the vesting or cessation of the substantial risk of forfeiture. However, by filing a Section 83(b) election with the U.S. Internal Revenue Service within 30 days after the date of grant of restricted stock, a participant's ordinary income and commencement of holding period and the deduction will be determined as of the date of grant. In such a case, the amount of ordinary income recognized by such a participant and deductible by Resaca will be equal to the excess of the fair market value of the award as of the date of grant over the amount paid, if any, by the participant for the award. If such election is made and a participant thereafter forfeits his or her award, no refund or deduction will be allowed for the amount previously included in such participant's income.

Certain limitations on deductibility of executive compensation. With certain exceptions, Section 162(m) of the Internal Revenue Code denies a deduction to a publicly held company for compensation paid to certain executive officers (either Resaca's principal executive officer or principal financial officer or an individual who is among the three highest compensated officers for the taxable year other than the principal executive officer and the principal financial officer) in excess of $1 million per executive per taxable year (including any deduction with respect to the exercise of a nonstatutory stock option or stock appreciation right, or the Disqualifying Disposition of shares purchased pursuant to an incentive stock option). One such exception applies to certain performance-based compensation, provided that such compensation has been approved by shareholders in a separate vote and certain other requirements are met. Resaca believes that the nonstatutory stock options, stock appreciation rights, and other performance-based awards granted under the Amended Incentive Plan qualify for the performance-based compensation exception to Section 162(m).

Requirements regarding "deferred compensation." Certain of the benefits under the Amended Incentive Plan may constitute "deferred compensation" within the meaning of Section 409A of the Internal Revenue Code, which governs the taxation of "nonqualified deferred compensation plans."

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Failure to comply with the requirements of the provisions of Section 409A regarding participant elections and the timing of payment distributions could result in the affected participants being required to recognize ordinary income for federal tax purposes earlier than expected, and to be subject to additional taxes and substantial penalties.

ERISA. The Amended Incentive Plan is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Amended Incentive Plan is not qualified under Section 401(a) of the Internal Revenue Code.

Current Equity Compensation Plan Information

The following table summarizes certain information regarding securities authorized for issuance under our equity compensation plans as of June 30, 2009.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted-Average Exercise Price of Outstanding Options(1) (b)	Number of Securities to be Issued Upon Vesting of Outstanding Restricted Shares (c)	Number Of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a) and (c))(2) (d)
Equity Compensation Plans Approved By Security Holders	1,756,787	$ 2.11	4,105,515	3,363,572
Equity Compensation Plans Not Approved By Security Holders	NA	NA	NA	NA
Total	1,756,787	$ 2.10	4,105,515	3,363,572

(1) Weighted Average price of outstanding options as of June 30, 2009 is calculated as follows:

Grant Date	Exercise Price (£)	Assumed Exchange Rate as of June 30, 2009	Exercise Price ($)
07/17/2008	£1.30	$ 1.65872	$ 2.16
01/21/2009	£0.23	$ 1.65872	$ 0.38
Weighted Average Exercise Price Per Share			$ 2.11

(2) The Incentive Plan initially made 9,225,874 shares available for incentive compensation. As of June 30, 2009, 4,105,515 had been awarded in restricted stock (1,368,505 of which have vested as of the date of this proxy statement) and 1,756,787 had been awarded in stock options leaving 3,363,572 shares available in for future issuance.

CHAPTER II THE CANO SPECIAL MEETING OF STOCKHOLDERS

The Cano board of directors is furnishing this proxy statement to its common and preferred stockholders in connection with the solicitation of proxies by the Cano board of directors for use at the special meeting of its stockholders to be held on Wednesday, June 23, 2010. This proxy statement and form of proxy will be mailed to Cano common and preferred stockholders on or about June 2, 2010.

Time and Place

The Cano special meeting is scheduled to be held at The Fort Worth Club located at 306 W. 7th Street, Suite 1100, Forth Worth, Texas 76102, on Wednesday June 23, 2010, at 10:00 a.m., Fort Worth, Texas time.

Purpose of the Special Stockholder Meeting

The purpose of the Cano special meeting is as follows:

1. To consider and vote upon a proposal to adopt the merger agreement, pursuant to which Merger Sub will merge with and into Cano;

2. To consider and vote upon the Cano Series D Amendment;

3. To consider and vote upon a proposal to adjourn the special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of proposal 1 or 2;

4. To transact such other business incident to the conduct of the meeting as may properly come before the meeting or any adjournments or postponements thereof.

Cano knows of no other matters to come before the special meeting. **The first two proposals listed above relating to the merger and the Cano Series D Amendment are conditioned upon each other and the approval of each such proposal is required for completion of the merger.**

The members of the Cano board of directors, who voted, unanimously approved and adopted the merger agreement and the transactions contemplated by it, declared its advisability and recommend that Cano stockholders vote "FOR" the adoption of the merger agreement, "FOR" the approval of the Cano Series D Amendment and "FOR" the approval of proposal 3 above. As described on pages I-108 to I-109, some Cano directors and executive officers will receive substantial financial benefits as well as other valuable consideration as a result of the merger.

Record Date and Outstanding Shares

Only holders of record of Cano common stock at the close of business on May 21, 2010 are entitled to notice of, and to vote at, the Cano special meeting. On the Cano record date, there were 45,570,147 shares of Cano common stock issued and outstanding held by approximately holders of record. On the Cano record date, there were 27,963 shares of Cano preferred stock issued and outstanding held by approximately 16 holders of record. Each share of Cano common stock entitles the holder of that share to one vote on each matter submitted for stockholder approval. Each share of Cano common stock is entitled to one vote per share. Each share of Cano preferred stock is entitled to (i) one vote for per share for proposals 1 and 2; and (ii) approximately 173.913 votes per share (voting on an as-converted basis to Cano common stock) on proposal 3.

As of April 5, 2010, the holders of a majority of the outstanding shares of Cano preferred stock had executed and delivered voting agreements, with irrevocable proxies, agreeing to vote in favor of the Cano Series D Amendment and the merger agreement and executed a written consent in lieu of special meeting, whereby those holders approved the Cano Series D Amendment and the adoption of the merger agreement.

Share Ownership of Cano Directors, Executive Officers and Significant Stockholders

At the close of business on the record date and excluding shares underlying options, Cano's directors and executive officers and their affiliates may be deemed to be the beneficial owners of, and have the power to vote, (i) 2,773,931 shares of Cano common stock, representing approximately 6.1% of the then outstanding shares of Cano common stock entitled to vote at the Cano special meeting, and (ii) 1,000 shares of Cano preferred stock, representing approximately 3.6% of the then outstanding shares of Cano preferred stock entitled to vote at the Cano special meeting. Cano believes that each of its directors and executive officers intends to vote "FOR" the adoption of the merger agreement and the Cano Series D Amendment.

Quorum and Vote Necessary to Approve Proposals

Stockholders who hold a majority in voting power of the Cano common stock and Cano preferred stock issued and outstanding as of the close of business on the record date and who are entitled to vote must be present or represented by proxy in order to constitute a quorum to conduct business at the Cano special meeting. Broker non-votes will be not considered in determining the presence of a quorum at the Cano special meeting, because only non-routine voting matters are on the ballot.

The affirmative vote of both (a) a majority of the outstanding shares of Cano common stock, voting as a separate class; and (b) a majority of the outstanding shares of Cano preferred stock, voting as a separate class, is required to adopt the merger agreement and to approve the Cano Series D Amendment. The approval of the adjournment of the meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of proposals 1 or 2 requires the affirmative vote of a majority of the shares cast affirmatively or negatively of Cano common stock and Cano preferred stock, voting as a single class with the preferred stock voting on an as-converted basis to Cano common stock.

As of April 5, 2010, the holders of a majority of the outstanding shares of Cano preferred stock had executed and delivered voting agreements, with irrevocable proxies, agreeing to vote in favor of the Cano Series D Amendment and the merger agreement and executed a written consent in lieu of special meeting, whereby the holders approved the Cano Series D Amendment and the adoption of the merger agreement. Holders of Cano preferred stock are entitled to appraisal rights under the DGCL in respect of the merger.

Voting of Proxies

The proxy card will be sent to each Cano stockholder on or promptly after the record date. If you receive a proxy card, you may grant a proxy vote on the proposals by marking and signing your proxy card and returning it to Cano. If you hold your stock in the name of a bank, broker or other nominee, you should follow the instructions of the bank, broker or nominee when voting your shares. All shares of stock represented by properly executed proxies received prior to or at the Cano special meeting will be voted in accordance with the instructions indicated on such proxies. Proxies that have been revoked properly and on time will not be counted. If no instructions are indicated on a properly executed returned proxy, that proxy will be voted to approve the adoption of the merger agreement with respect to Resaca and Cano and to approve the other matters indicated on the proxy card.

In accordance with the NYSE Amex rules, brokers, banks and nominees who hold shares in street name for customers may not exercise their voting discretion with respect to the adoption of the merger agreement or the approval of the Cano Series D Amendment. Thus, absent specific instructions from the beneficial owner of such shares, brokers, banks and nominees may not vote such shares with respect to the approval of those proposals. Broker non-votes will have the same effect as voting "AGAINST" the proposals to (i) adopt the merger agreement and approve of the merger or (ii) approve the Cano Series D Amendment. Abstentions will also have the same effect as voting "AGAINST" each of the foregoing Cano proposals. In addition, the broker non-votes effectively reduce the number of affirmative votes available to achieve a majority vote.

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Except as noted above, a properly executed proxy marked "ABSTAIN," although counted for purposes of determining whether there is a quorum, will not be voted on any matters brought before the Cano stockholder meeting.

Other Business. The Cano board is not currently aware of any business to be acted upon at the special meeting other than the matters described herein. If, however, other matters are properly brought before the stockholder meeting, or any adjournments or postponements thereof, the persons appointed as proxies will have discretion to vote or act on those matters according to their judgment.

Revocation of Proxies

You may revoke your proxy before it is voted by:

- By sending a notice of revocation to the corporate secretary of Cano;
- By sending a completed proxy card bearing a later date than your original proxy card;
- By logging onto the Internet website *www.canopetro.com* as specified on your proxy card in the same manner you would submit your proxy electronically or by calling the telephone number specified on your proxy card, in each case if you are eligible to do so and following the instructions on the proxy card; or
- By attending Cano's special meeting and voting in person. Your attendance alone will not revoke your proxy.

If you choose any of the first three methods, you must take the described action no later than the beginning of the annual meeting.

If your shares are held in an account at a broker, bank or other nominee, you should contact your broker, bank or other nominee to change your vote.

Solicitation of Proxies

In addition to solicitation by mail, we may make arrangements with brokerage houses and other custodians, nominees and fiduciaries to send proxy materials to beneficial owners. The directors, officers and employees of Cano may solicit proxies by telephone, telecopy, fax, telegram or in person. These directors, officers and employees will receive no additional compensation for doing so. In addition, Cano has retained DF King and Co., Inc., a proxy solicitation firm, to assist with the solicitation of proxies. Cano estimates that it will pay to DF King and Co., Inc. a fee of not more than $20,000.

To ensure sufficient representation at the Cano special meeting, we may request the return of proxy cards by telephone or in person. The extent to which this will be necessary depends entirely upon how promptly proxy cards are returned. You are urged to send in your proxies without delay.

If the merger is consummated, Resaca will pay the cost of soliciting proxies, including the cost of preparing and mailing this proxy statement and the expenses incurred by brokerage houses, nominees and fiduciaries in forwarding proxy materials to beneficial owners. In the merger agreement, we have agreed to split most of the costs of preparing and distributing this document, other than legal and investment banking fees, if the merger agreement is terminated.

Holders of Cano common stock and Cano preferred stock should not send their stock certificates at this time. If the merger is completed, a separate letter of transmittal will be mailed to you, which will enable you to receive the appropriate consideration.

CANO SPECIAL MEETING PROPOSALS

Proposal 1: Adoption of the Merger Agreement

(Item 1 on Proxy Card)

As discussed elsewhere in this proxy statement, Cano is asking its stockholders to adopt the merger agreement. Holders of Cano common stock and Cano preferred stock should read carefully this proxy statement in its entirety, including the annexes, for more detailed information concerning the merger agreement and the merger. In particular, holders of Cano common stock and preferred stock are directed to the merger agreement, a copy of which is Annex A to this proxy statement.

THE CANO BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* THE ADOPTION OF THE MERGER AGREEMENT (ITEM 1).

Proposal 2: Cano Series D Amendment

(Item 2 on Proxy Card)

The following description summarizes the material provisions of the Cano Series D Amendment. The Cano Series D Amendment is included as Annex D to this proxy statement. We encourage you to read it carefully and in its entirety. The Cano Series D Amendment has been included as Annex D to provide you with information regarding its terms. It is not intended to provide any other factual information about Cano. Such information can be found elsewhere in this proxy statement. All capitalized terms in this section of the proxy statement, unless otherwise defined herein, have the meanings set forth in the Cano Preferred Stock Certificate of Designations.

General

The Cano Series D Amendment adds a new section (23) to the Cano Preferred Stock Certificate of Designations which provides that, notwithstanding anything to the contrary contained in the Transaction Documents, the holders of Cano preferred stock shall have none of the preferences, rights, privileges or powers of, or restrictions provided for the benefit of, the Cano preferred stock contained in the Transaction Documents relating to, arising out of or caused by the execution and delivery of the merger agreement and the consummation of the merger and the other transactions contemplated by the merger agreement (including, without limitation, any rights to require Cano to redeem any shares of the Cano preferred stock or notice, voting or consent rights), except to receive the shares of Resaca preferred stock pursuant to the terms of the merger agreement and such other rights (including registration rights and preemptive rights having terms consistent with those presently contained in the Transaction Documents) not inconsistent with the foregoing as shall be reasonably acceptable to Cano, Resaca and the Required Holders.

In addition, the Cano Series D Amendment provides that, in the event that (i) the merger agreement is terminated in accordance with its terms, (ii) the merger agreement is amended, modified or supplemented or any waiver is given by any party thereto that is individually or in the aggregate adverse to the interests of the holders of the Cano preferred stock without the prior written consent of a majority of the holders of the Cano preferred stock or (iii) Resaca fails to assume Cano's obligations under the Transaction Documents to the extent not otherwise eliminated pursuant to the Cano Series D Amendment with respect to the merger, the new section (23) created by the Cano Series D Amendment will be inoperative and of no force or effect.

In order to provide the holders of the Cano preferred stock with certain registration rights and preemptive rights contained in the Transaction Documents, Resaca entered into the investors rights agreement with the holders of the Cano preferred stock which will be effective upon consummation of the merger. The investors rights agreement will supersede and replace certain of the Transaction Documents entered into among Cano and the holders of the Cano preferred stock, will provide the

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holders of Cano preferred stock with substantially similar rights as the Transaction Documents. A copy of the investors rights agreement is included as Annex F to this proxy statement.

Redemption Option Upon Triggering Event

Section (3) of the Cano Preferred Stock Certificate of Designations provides that, after a Triggering Event, each holder of Cano preferred stock shall have the right to require Cano to redeem all or a portion of such holder's Cano preferred stock equal to the greater of (i) 125% of the Conversion Amount and (ii) the product of (A) the Conversion Rate in effect at such time and (B) the greater of the Closing Sale Price of the Cano common stock on the Trading Day immediately preceding such Triggering Event, the Closing Sale Price of the Cano common stock on the day immediately following such Triggering Event and the Closing Sale Price of the Cano common stock on the date the holder delivers the notice of redemption at the holder's option.

A "Triggering Event" occurs if:

- the Cano common stock is suspended from trading or fails to be listed on a Principal Market for a period of 10 consecutive Trading Days or for more than an aggregate of 20 Trading Days in any 365-day period;

- Cano fails to convert and does not cure this conversion failure within 10 Business Days after the applicable Conversion Date or gives notice to any Holder at any time of its intention not to comply with a request for conversion;

- Cano fails to pay, and continues to fail to pay for at least five Business Days, to the Holder any amounts when and as due pursuant to the Certificate of Designations or any Transaction Document (as defined in the Securities Purchase Agreement dated August 25, 2006);

- a court (i) enters a decree or order of voluntary or involuntary bankruptcy, insolvency, reorganization or other similar proceeding, (ii) appoints a custodian, receiver, liquidator or other similar official, or (iii) orders the winding up or liquidation of its affairs, in respect of Cano or any Subsidiary or of any substantial part of its property and such decree or order is unstayed and in effect for 60 consecutive days;

- Cano or any Subsidiary (i) commences a voluntary bankruptcy, insolvency, reorganization or other similar proceeding, (ii) consents to an involuntary proceeding or appointment of a custodian, receiver, liquidator or other similar official, (iii) makes an assignment for the benefit of creditors, (iv) admits in writing its inability to pay debts generally as they become due, or (v) takes corporate action in furtherance of any such action;

- Cano defaults with respect to any Indebtedness, which default has not been waived, and any applicable grace period has expired; or

- Cano breaches any representation, warranty, covenant or other term or condition of any Transaction Document and any curable breach remains uncured for at least seven Business Days.

The Cano Series D Amendment eliminates the rights of holders of Cano preferred stock to cause Cano to redeem any shares of Cano preferred stock pursuant to Section (3), resulting from the execution and delivery of the merger agreement or the transactions contemplated thereby, including the merger.

Change of Control Redemption Right

Section (8) of the Cano Preferred Stock Certificate of Designations provides that, at any time during the period beginning after the receipt by a holder of Cano preferred stock of a Change of Control Notice and ending on the date that is 20 Trading Days after the consummation of such Change of Control, such Eligible Holder may require Cano to redeem all or any portion of such holder's Cano preferred stock.

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The Cano Series D Amendment eliminates the rights of holders of Cano preferred stock to cause Cano to redeem any shares of Cano preferred stock pursuant to Section (8), resulting from the execution and delivery of the merger agreement or the transactions contemplated thereby, including the merger.

Other Rights

Section (4) of the Cano Preferred Stock Certificate of Designations provides that Cano shall not enter into or be party to a Fundamental Transaction unless (i) the Successor Entity assumes in writing all of the obligations of Cano under the Cano Preferred Stock Certificate of Designations and the other Transaction Documents pursuant to written agreements in form and substance satisfactory to a majority of the holders of the outstanding Cano preferred stock and approved by such holders prior to such Fundamental Transaction and (ii) the Successor Entity is a publicly traded corporation whose common stock is quoted on or listed for trading on the Principal Market or an Eligible Market.

The Cano Series D Amendment eliminates the rights of holders of Cano preferred stock to cause Cano or Resaca to take any of the actions required by Section (4), resulting from the execution and delivery of the merger agreement or the transactions contemplated thereby, including the merger. Instead, holders of the Cano preferred stock, who do not seek appraisal, will receive shares of the Resaca preferred stock upon consummation of the merger and will also have the rights contained in the investors rights agreement.

In addition, Section (4) of the Cano Preferred Stock Certificate of Designations provides that, following the occurrence of an Asset Sale, a holder of Cano preferred stock may require Cano to redeem, with the Available Asset Sale Proceeds, all or any portion of the Cano preferred stock held by such holder. For so long as any shares of Cano preferred stock are outstanding, Cano shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, consummate any Asset Sale unless Cano receives consideration at the time of the Asset Sale at least equal to the fair market value of the assets or Equity Interests issued or sold or otherwise disposed of.

The Cano Series D Amendment eliminates the rights of holders of Cano preferred stock to cause Cano to redeem any shares of Cano preferred stock pursuant to Section (4), resulting from the execution and delivery of the merger agreement or the transactions contemplated thereby, including the merger.

Covenants

Section (12) of the Cano Preferred Stock Certificate of Designations provides that the affirmative vote or the written consent of the holders of at least a majority of the aggregate shares of Cano preferred stock then outstanding, voting together as a single class, will be required for Cano to:

- amend or repeal any provision of, or add any provision to, Cano's Certificate of Incorporation or bylaws, or file any articles of amendment, certificate of designations, preferences, limitations and relative rights of any series of preferred stock (including any amendment to the Certificate of Designations for the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock), if such action would adversely alter or change the preferences, rights, privileges or powers of, or restrictions provided for the benefit of the Cano preferred stock, regardless of whether any such action shall be by means of amendment to the Cano certificate of incorporation or by merger, consolidation or otherwise;

- increase or decrease (other than by conversion) the authorized number of shares of Series D Preferred Stock;

- create or authorize (by reclassification or otherwise) any new class or series of shares that has a preference over or in on a parity with the Cano preferred stock with respect to dividends or the distribution of assets on the liquidation, dissolution or winding up of Cano;

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purchase, repurchase or redeem any shares of Cano common stock (other than pursuant to equity incentive agreements with employees giving Cano the right to repurchase shares upon the termination of services at cost);

pay dividends or make any other distribution on the common stock;

whether or not prohibited by the terms of the Cano preferred stock, circumvent a right of the Cano preferred stock.

The Cano Series D Amendment eliminates the voting and rights of holders of Cano preferred stock pursuant to Section (4), resulting from the execution and delivery of the merger agreement or the transactions contemplated thereby, including the merger.

CANO'S BOARD OF DIRECTORS RECOMMENDS THAT ITS STOCKHOLDERS VOTE *FOR* THE CANO SERIES D AMENDMENT (ITEM 2).

Proposal 3: Possible Meeting Adjournment or Postponement
(Item 3 on Proxy Card)

The Cano annual meeting may be adjourned or postponed to another time or place to permit, among other things, further solicitation of proxies if necessary to obtain additional votes in favor of the adoption of the merger agreement or the Cano Series D Amendment.

THE CANO BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* THIS ITEM (ITEM 3).

FUTURE CANO STOCKHOLDER PROPOSALS

Cano's secretary must have received stockholders' proposals intended to be presented at Cano's next annual meeting, which has been indefinitely delayed pending the outcome of the results of this special meeting, at its principal executive office on or before August 10, 2009 to have been considered for inclusion in its proxy statement and form of proxy for the meeting. A stockholder proposal submitted outside of the processes established in Rule 14a-8 under the Exchange Act will be considered untimely if not so received by the close of business on the later of (i) the 90th day before the next annual meeting or (ii) the 10th day following the day of which public announcement of the date of such meeting is first made. Pursuant to Rule 14a-4(c)(1) under the Exchange Act, if Cano's secretary receives any stockholder proposal at Cano's principal executive office after such date, the proxies designated by Cano's board will have discretionary authority to vote on such proposal.

LEGAL MATTERS

The validity of the Resaca common stock offered hereby will be passed upon by Haynes and Boone, LLP, Houston, Texas. In addition, Thompson & Knight LLP, Dallas, Texas has delivered an opinion to Cano as to certain tax matters.

EXPERTS

The consolidated financial statements of Resaca as of June 30, 2009 and 2008, and for each of the three years in the period ended June 30, 2009 appearing in this proxy statement have been audited by UHY LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Cano as of June 30, 2009 and 2008, and for each of the three years in the period ended June 30, 2009 appearing in this proxy statement, have been audited by Hein & Associates LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

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Certain information with respect to the oil and gas reserves associated with Resaca's oil and gas properties is derived from the reports of Haas Petroleum Engineering Services, Inc., an independent petroleum consulting firm, and has been included in this document upon the authority of said firms as experts with respect to the matters covered by such reports and in giving such reports. Certain information with respect to the oil and gas reserves associated with Cano's oil and gas properties is derived from the reports of Miller and Lents, Ltd., an independent petroleum consulting firm, and has been included in this document upon the authority of said firms as experts with respect to the matters covered by such reports and in giving such reports.

WHERE YOU CAN FIND MORE INFORMATION

As an AIM-listed company, Resaca is not subject to the rules and regulations of the SEC. However, as a publicly-traded company, Cano is required to disclose certain information through filings with the SEC. Cano files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document Cano files at the SEC's public reference facilities of the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference facilities. Cano's SEC filings are also available to the public at the SEC's website at *http://www.sec.gov*. Copies of documents filed by Cano with the SEC are also available at the offices of The New York Stock Exchange, 20 Broad Street New York, New York 10005.

Resaca maintains an Internet website at *www.resacaexploitation.com*. The information contained on, connected to or that can be accessed via its website is not part of this proxy statement.

Cano maintains an Internet website at *www.canopetro.com*. The information contained on, connected to or that can be accessed via its website is not part of this proxy statement.

Resaca has provided all of the information contained in this proxy statement with respect to Resaca and Cano has provided all of the information contained in this proxy statement with respect to Cano.

If you own Cano common stock or preferred stock, please sign, date and promptly mail the enclosed proxy in the enclosed prepaid envelope. Prompt return of your proxy will help save additional solicitation expense.

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CHAPTER III BUSINESS & FINANCIAL INFORMATION OF RESACA AND CANO

BUSINESS AND PROPERTIES

Our Business and Properties

Resaca is an independent oil and gas exploitation company headquartered in Houston, Texas. We exploit known, mature, proven and probable low-risk oil and gas reserves, as opposed to generally pursuing exploratory operations. We utilize the existing technology to achieve secondary and tertiary hydrocarbon recovery. Resaca's activities are focused in the Permian Basin of West Texas and southeast New Mexico. In the merger with Cano, Resaca will acquire additional assets in Texas, New Mexico and Oklahoma.

Resaca was formed in 2006 to exploit a number of oil and gas properties in the Permian Basin of the United States. Resaca was admitted to trading on the AIM on July 17, 2008.

On September 29, 2009, Resaca and Cano entered into the merger agreement, pursuant to which Cano will merge with Merger Sub, a newly formed, wholly owned subsidiary of Resaca, with Cano thereupon becoming a wholly owned subsidiary of Resaca. In the merger, Cano common stockholders will receive 0.42 shares of Resaca common stock for each share of Cano common stock, and Cano preferred stockholders will receive one share of Resaca preferred stock for each share of Cano preferred stock.

Due to Resaca's and Cano's complementary asset bases and similar strategic focus, we believe that the combined company will benefit from the following:

Complementary Assets and Balanced Growth Opportunities. Resaca believes that the majority of the assets and operations of Cano are complementary to those of Resaca. Resaca and Cano have the same business strategy, which is the exploitation of known oil and gas reserves, including the use of secondary and tertiary recovery technologies. Resaca believes that Cano's long-term growth potential with its large undeveloped reserve base (PUDs) complements Resaca's near-term capacity to increase production (PDNPs). The merger also affords Resaca the ability to high grade the combined capital expenditure programs.

Significant Cost Savings and Efficiencies. Given the complementary nature of their operations, including complementary technical and operational staffs, Resaca expects that the merger will allow the combined company to take advantage of synergies which should result in significant cost savings. Resaca expects to reduce costs in the combined operations by approximately $4.5 - 5.0 million in general and administrative expense and lease operating expense reductions over fiscal year 2009 by consolidating corporate headquarters, eliminating duplicative staff and expenses, realizing operating expense efficiencies and benefiting from other cost savings.

Near-Term Production Enhancement. Resaca believes that the merger will allow it to increase its hydrocarbon production by 10-20% by applying engineering applications to identified prospects through the sharing of proven and innovative engineering expertise among Resaca and Cano management and staff.

Strategic Consistency. Both Resaca and Cano are focused on exploitation of known oil and gas reserves and are engineering driven companies with limited exploration risk. Both companies have similar asset bases with mature, long-life oil production profiles with secondary and tertiary potential. Resaca believes there is significant secondary and CO_2 recovery potential in both companies' properties.

Expanded Access to Capital. Resaca believes that the merger will provide the combined company with more efficient access to capital at a lower cost than either Resaca or Cano have on a standalone basis. There is very little overlap in Cano's and Resaca's institutional stockholder

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bases providing the combined company with a greater institutional float and awareness in the market. With the merger, Resaca will have a dual listing on the AIM and the NYSE Amex. Access to U.S., Canadian and European investor bases and the increased size of the combined company should benefit Resaca with increased (i) liquidity and trading volume, (ii) awareness of Resaca, and (iii) access to capital (debt and equity).

The Combined Company

At June 30, 2009, our estimated proved reserves had the following characteristics on a pro forma combined basis:

- 63.3 MMBOE;
- PV-10 value of $664.5 million;
- 80% crude oil (as measured by MMBOE);
- 29% proved developed (as measured by MMBOE); and
- A proved developed reserve life index of approximately 27 years (based upon production for the year ended June 30, 2009).

Our estimated combined June 30, 2009 proved reserves of 63.3 MMBOE include 10.1 MMBOE of PDP, 8.0 MMBOE of PDNP, and 45.2 MMBOE of PUD. Reserves were estimated using NYMEX, crude oil and natural gas prices and production and development costs in effect on June 30, 2009. NYMEX crude oil price used in the estimation of Resaca's and Cano's reserves was $69.89 per barrel. NYMEX natural gas prices used in the estimation of Resaca's and Cano's reserves were $3.84 per MMBtu and $3.71 per MMBtu, respectively. The values reported may not necessarily reflect the fair market value of the reserves.

Our properties are contained in eight primary field complexes and a group of minor fields. in mature oil and gas producing basins in Texas, New Mexico and Oklahoma and consist of approximately 75,000 gross and 73,000 net acres. At May 28, 2010, on a pro forma combined basis, we operated approximately 1,904 active wells, including 1,501 producing wells, 391 waterflood injection wells, and 12 salt water disposal wells. For the month ended April 30, 2010, on a pro forma combined basis, we produced an average of 1,923 net BOE per day from over 25 separate formations, which was composed of approximately 76% oil and approximately 24% natural gas. Nearly all of our production is from relatively shallow formations.

Our exploitation plan involves the reactivation of shut-in wells, recompletion of currently producing wells, including refracturing implementation of new waterfloods, reactivation and optimization of existing waterfloods and an infill drilling program. We believe our properties contain many opportunities for the development of low risk oil and gas reserves and many of our properties are candidates for tertiary recovery by CO_2 flooding based on reports and studies performed on these properties.

For the year ended June 30, 2009, we generated pro forma combined operating revenues of $43.1 million and pro forma combined net income of $25.8 million. For the nine months ended March 31, 2010, we generated pro forma combined operating revenues of $28.7 million and pro forma combined net loss of $17.9 million. For the fiscal year ended June 30, 2009, Resaca had revenues of approximately $14.6 million (excluding gains and losses on price risk management activities) and net income of approximately $2.7 million. For the nine months ended March 31, 2010, Resaca had revenues of approximately $11.3 million (excluding gains and losses on price risk management activities) and a net loss of approximately $6.7 million. For the fiscal year ended June 30, 2009, Cano had revenues of approximately $25.4 million and net income applicable to Cano common stock of approximately

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$7.9 million. For the nine months ended March 31, 2010, Cano had revenues of approximately $16.4 million and net loss applicable to Cano common stock of approximately $13.1 million.

Business Strategy of the Combined Company

The combined company expects to create long-term shareholder value by pursuing the following business strategy:

Exploitation of Reserves in Known Formations. As opposed to exploration operations associated with primary production, all of the value in an exploitation operation is in the development and production of proven and probable reserves in known and established formations and thus exploitation operations generally have less risk. Our exploitation efforts will involve the application of EOR techniques to mature oil and gas properties, including infill drilling, well deepening, uphole re-completions, re-fracturing, waterfloods and CO_2 flooding.

Our portfolio is composed of mature fields with proved reserves recoverable from primary, secondary or tertiary production techniques, existing infrastructure and abundant technical information. Accordingly, our production growth is not dependent on exploratory drilling of new formations and the high degree of speculation associated with making new discoveries.

Acquire Strategic Assets. Outside our existing operations, we continue to review opportunities to acquire additional assets with similar characteristics to our current asset base. We intend to concentrate on properties with strong upside potential from secondary and/or tertiary recovery from existing proven reserves, including PDP, PDNP, PUD and probable reserves.

Further Geographical Diversification of Portfolio with High Potential Properties. We intend to broaden our portfolio into other long-life, mature U.S. oil and gas basins. In the longer-term, we may expand our portfolio outside the United States. Our board and managment have extensive experience with operations outside of the United States and we intend to investigate similar exploitation opportunities in other jurisdictions, including South America and Central Canada.

Competitive Strengths of the Combined Company

We believe that the combined company will have the following competitive strengths:

Attractive Asset Base. We believe we have a reserve base with significant exploitation potential. The combined company has 63.3 MMBOE of estimated proved reserves, which were 80% oil, with a PV-10 value of approximately $664.5 million as of June 30, 2009. The proximity of our properties to existing CO_2 infrastructure provides potential for significant new reserve and production growth through tertiary recovery techniques not contemplated in our current proven reserves.

Technical Expertise. Our management team has significant experience in executing large scale waterflood and CO_2 projects. Our current operational and technical team averages over 25 years of experience and has executed dozens of secondary and tertiary projects during their careers. In addition, we believe that our broad technical and operational expertise enables us to identify a wide range of production and reserve growth opportunities when evaluating acquisitions with reserve exploitation potential.

Diversified Operations and Operational Control. Our operations are broadly distributed across 14 properties on approximately 75,000 gross acres in Texas, New Mexico and Oklahoma, and we produce from over 25 different formations. As of May 28, 2010 on a pro forma combined basis, the combined company produced oil and natural gas from 1,501 wells and operated 100% of its current production. We believe our control over the operation of our properties along with the geological diversity of our

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reserves and the number of wells that we operate reduce our dependence on specific properties, formations or producing wells, thereby reducing operational and reserve risk.

Highly Experienced Senior Management with Significant Equity Stake. Our management team includes individuals who have, on average, more than 30 years of experience in the oil and gas sector. Our management team and board of directors currently own or control approximately 9.5% of our outstanding shares.

Relationship with Torch Energy Advisors. Our relationship with Torch, a privately owned, Houston-based energy company, provides us access to additional experienced oil and gas professionals with valuable technical expertise. We are able to leverage our relationship with Torch and it presents us with acquisition opportunities that fit our strategy. Currently, Torch is Resaca's largest shareholder and provides it management services.

Resaca's Properties

Resaca's properties are located in West Texas and Southeast New Mexico on the Central Basin Platform of the Permian Basin and consist of approximately 15,000 gross/14,000 net acres contained in three main field complexes and a group of minor fields. Resaca's primary fields, which contain 89% of Resaca's current proved and probable reserves, are the Cooper Jal Unit Properties in Lea County, New Mexico; the Penwell Properties in Ector and Crane Counties, Texas; and the Grand Clearfork Unit Properties in Pecos County, Texas, which we refer to as the Resaca Primary Properties. The Resaca Primary Properties currently produce from the Yates, Seven Rivers, Queen, Grayburg, San Andres, Clearfork and Tansil formations. The Resaca Primary Properties include approximately 178 producing wells, 58 injection wells and 20 shut-in wells. Resaca's exploitation plan, which was initiated in 2006, is to reactivate most of the shut-in wells, reactivate and seek to optimize the existing waterfloods and conduct a significant infill drilling program. Resaca believes that the Resaca Primary Properties represent excellent opportunities for the development of low risk oil reserves.

The Resaca Primary Properties were originally developed in the mid 1950s, with development and waterflood initiation continuing until the mid 1970s, at a time of significantly lower oil and natural gas prices and prior to the availability of current completion and fracturing techniques and the development of technologies which greatly enhance the exploitation of proved reserves. In addition to Resaca's other exploitation opportunities, Resaca believes the Resaca Primary Properties are excellent candidates for tertiary recovery by CO_2 flooding. The use of CO_2 for this type of enhanced recovery has revitalized many older proven oil producing fields in the Permian Basin. Several major companies are operating CO_2 floods in the region and some of the Resaca Primary Properties were identified in a report dated February 2006 prepared by Advanced Resources International for the U.S. Department of Energy entitled "Basin Oriented Strategies for CO_2 Enhanced Oil Recovery: Permian Basin" as being amenable to CO_2 enhanced oil recovery. Therefore, Resaca believes CO_2 flooding provides a potential means to further enhance the value of the Resaca Primary Properties. Resaca engaged Williamson Petroleum Consultants, Inc. in Midland, Texas, to perform a feasibility study for CO_2 flooding on all of the Resaca Primary Properties. This study identified that material amounts of incremental reserves in each of the Resaca Primary Properties could be accessed through CO_2 flooding and estimated the CO_2 recovery factor could be 7.5% to 8% depending on the field. Resaca believes that the CO_2 flood could lead to additional recoveries of between 7% and 16% of the original oil in place, based on, among other things, published Permian Basin oil recovery rate projections.

Resaca's June 30, 2009 proved reserves of 14.2 MMBOE were comprised of 2.4 MMBOE of PDP, 5.6 MMBOE of PDNP, and 6.2 MMBOE of PUD. Crude oil reserves accounted for 84% of our total proved reserves at June 30, 2009. Reserves were estimated using NYMEX, crude oil and natural gas prices and production and development costs in effect on June 30, 2009. On June 30, 2009, NYMEX

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crude oil and natural gas prices were $69.89 per barrel and $3.84 per MMBtu, respectively. The values reported may not necessarily reflect the fair market value of the reserves.

Cooper Jal Unit Properties. The Cooper Jal Unit Properties located in Lea County, New Mexico includes 2,560 acres. At the Cooper Jal Unit Properties, Resaca produces from three separate formations of Permian age from two separate fields, the Jal Mat and the Langlie Mattix. The Jal Mat field includes the Yates and Upper Seven Rivers formations, while the Langlie Mattix field includes the Lower Seven Rivers and the Queen formations. The Cooper Jal Unit Properties produce from the Yates, Seven Rivers and Queen formations at depths between 3,050 and 3,650 feet. Resaca acquired the Cooper Jal Unit Properties in May 2006. Resaca plans to continue developing additional production within the Cooper Jal Unit Properties from behind pipe recompletion work, infill drilling, fracture stimulation work, producing well stimulations, artificial lift upgrades and waterflood reactivation and optimization. Facility upgrades and water injection well cleanouts are also contemplated. Resaca's primary waterflood project is associated with the Yates and Seven Rivers formations within the Cooper Jal Unit Properties, which will require additional infill drilling and surface facilities. Resaca intends to continue to reactivate and expand the waterflood initiated by Texaco in the 1970s. Resaca achieved its target water injection rate of greater than 18,000 bbls of water per day in June 2009. Proved reserves as of June 30, 2009 attributable to Cooper Jal Unit Properties were 9.8 MMBOE, of which 1.4 MMBOE were PDP, 3.6 MMBOE were PDNP and 4.8 MMBOE were PUD. Additional probable oil reserves are projected to be accessed through tertiary recovery (CO_2 flood) techniques. Net production at the Cooper Jal Properties for the quarter and nine months ended March 31, 2010 was 325 BOEPD and 295 BOEPD, respectively. Resaca's working interest in the Cooper Jal Unit Properties is 72.5% and its net revenue interest is 55.7% for natural gas and 55.8% for oil. Other significant partners in the unit include BP and Sarita Energy Resources Limited. At the Cooper Jal Properties, the gross cumulative production divided by the sum of gross cumulative production and gross proved reserves is approximately 52%.

Penwell Properties. The Penwell Properties located in Ector and Crane Counties, Texas comprises the Jordan San Andres Unit (1,280 acres) and the Edwards Grayburg Unit (1,840 acres) and produces from the San Andres, Grayburg and Queen formations at depths between 3,000 and 3,600 feet. Resaca acquired the Penwell Properties in May 2006. As with the Cooper Jal Unit Properties, Resaca has identified that infill drilling opportunities exist within the Penwell Properties and anticipates facility upgrades and water injection upgrades. Resaca's primary objective at the Penwell Properties is to expand and optimize the current waterflood. Additional opportunities within the Penwell Properties include adding behind pipe zones, more waterflood expansion, producing well stimulations and drilling infill PUD locations. Proved reserves as of June 30, 2009 attributable to Penwell Properties were 1.7 MMBOE, of which 0.4 MMBOE were PDP, 0.4 MMBOE were PDNP and 0.9 MMBOE were PUD. Additional probable oil reserves are projected to be accessed through tertiary recovery (CO_2 flood) techniques. Net production at the Pennwell Properties for the quarter and nine months ended March 31, 2010 was 140 BOEPD and 143 BOEPD, respectively. Within the Penwell Properties fields, Resaca's working interest is 100% and its net revenue interest ranges from 79.0% to 80.2%.

Grand Clearfork Unit Properties. The Grand Clearfork Unit Properties located on 1,120 acres in Pecos County, Texas produces from both the Upper and Lower Clearfork formations at an average depth of approximately 2,500 feet. Resaca acquired the Grand Clearfolk Unit Properties in May 2006. Resaca believes the Grand Clearfork Unit Properties presents exploitation opportunities through infrastructure enhancement, re-completing wells, adding perforations and commingling production from multiple zones. In addition, Resaca has identified additional infill drilling locations in the Grand Clearfork Unit Properties. Proved reserves as of June 30, 2009 attributable to Grand Clearfork Unit Properties were 0.5 MMBOE, of which 0.1 MMBOE were PDP, 0.1 MMBOE were PDNP and 0.3 MMBOE were PUD. Additional probable oil reserves are projected to be accessed through tertiary recovery (CO_2 flood) techniques. Net production at the Grand Clearfork Unit Properties for the

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quarter and nine months ended March 31, 2010 was 45 BOEPD and 47 BOEPD, respectively. In the Grand Clearfork Unit Properties, Resaca's working interest is 100% and its net revenue interest is 75.3%.

Other Minor Properties. These fields are located on 8,210 acres in Winkler, Howard, Ector, and Crane Counties in Texas and Eddy County, New Mexico and include the Kermit Complex, Iatan North, Kayser (Cowden South), McElroy and Cotton Draw/BTBN. Resaca acquired these properties in May 2006. Resaca has identified limited opportunities in these fields, which include infill drilling, recompletions and waterflood optimization. However, Resaca is considering selling some or all of these properties to concentrate its efforts on the exploitation of the Resaca Primary Properties and the acquisition of new properties. Proved reserves as of June 30, 2009 attributable to these properties were 2.1 MMBOE, of which 0.4 MMBOE were PDP, 1.5 MMBOE were PDNP and 0.2 MMBOE were PUD. Net production for the quarter and nine months ended March 31, 2010 was 154 BOEPD and 150 BOEPD, respectively. In these fields, Resaca's working interests range from 50% to 100% and its net revenue interests range from 38.0% to 86.0%.

Cano's Properties

Cato Properties. Proved reserves as of June 30, 2009 attributable to the Cato Properties were 16.0 MMBOE, of which 1.9 MMBOE were PDP, 0.5 MMBOE were PDNP and 13.6 MMBOE were PUD. Cano acquired the Cato Properties in March 2007. These properties include roughly 20,000 acres across three fields in Chavez and Roosevelt Counties, New Mexico. The prime asset is the roughly 15,000 acre Cato Field, which produces from the historically prolific San Andres formation, which has been successfully waterflooded in the Permian Basin for over 30 years. There were two successful waterflood pilots conducted in the field in the 1970's by Shell and Amoco.

Cano has experienced encouraging initial waterflood response at the Cato Field. The first phase of development (Phase I) includes 19 water injection wells, which we refer to as injectors, and 29 producing wells, which we refer to as producers. Once the injection permits were received in September 2008, Cano began injecting 7,000 barrels of water per day, which we refer to as BWIPD. As Cano continued injecting water into the field, waterflood production has grown from five producers during December 2008 offsetting a prior Amoco waterflood pilot to 29 producers experiencing production as of June 30, 2009. During January 2009, Cano increased the injection rate to approximately 12,000 BWIPD. During February 2009, Cano expanded the footprint of Phase 1 of the Cato Properties waterflood from 550 to roughly 640 acres and announced an increased capital expenditures budget to $49.8 million, of which $27.0 million was intended for the Cato Properties. Cano currently has ten sub-pumps operating in the field and plan to install additional sub-pumps to support increasing production and corresponding higher levels of fluid production. The sustained production gains at the Cato Properties are the result of an earlier than expected waterflood production response.

The 2009 fiscal year drilling program at the Cato Properties, which comprised drilling nine wells (six waterflood producers and three waterflood injectors), was completed in October 2008. Normal production declines were experienced outside of the Phase I waterflooded area, but these declines were more than offset by increased production from the waterflood.

At June 30, 2009, Cano booked proved reserves extensions and discoveries at the Cato Properties as Phase I results were better than initially expected. Field production increased from roughly 200 BOEPD to over 400 BOEPD after Cano commenced injection into 19 injection wells of the waterflood pattern which led to increased crude oil production in 29 producers. When Cano increased the waterflood footprint from 550 acres to 640 acres, the rate of water injection per acre decreased leading to a temporary decrease in production. Cano added approximately 2.6 MMBOE of new reserves based on the responses experienced through June 30, 2009. Additionally, 1.1 MMBOE of PUD

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reserves were reclassified to PDP reserves as a result of the responses experienced in Phase I. Cano plans to increase the number of injection wells and enlarge the waterflood footprint in the 2010 fiscal year. Net production at the Cato Properties averaged 316 BOEPD in June 2009.

Cano's 2010 fiscal year development capital plan includes expanding the waterflood footprint from 640 acres to approximately 1,000 acres by adding three new injection wells, which were put into service in the second quarter of its 2010 fiscal year. Cano has identified a new source of water in a non-productive formation within its acreage, and has confirmed that the water well is capable of producing 2,500 to 3,000 barrels of water per day. This new water source formation has been penetrated in a number of existing wellbores in the Cato Properties and confirms the reservoir continuity necessary to validate it as a reliable water source for future expansion of the Cato waterflood. As Cano develops this new water source, it will be able to increase the waterflood footprint without decreasing the injection rate at its existing injectors, which should enable it to maintain production from existing producing wells at current levels. Cano averaged 14,000 BWIPD during the quarter ended September 30, 2009. Cano experienced a decrease to 12,000 BWIPD during its second and third quarters as it measured increasing injection pressures in the northern part of the flood area and was required, under its existing waterflood permit, to reduce the injection rate in these wells. On May 6, 2010, Cano received administrative approval from the New Mexico Oil and Gas Conservation Division to increase injection pressures at the 14 active wells to its current physical plant capabilities of approximately 21,000 BWIPD. Cano expects to see increasing fluid production rates and corresponding increasing oil rates as injection rates increase. Further development plans for the Cato Properties include behind-pipe recompletions, restoration of production from the Tom-Tom and Tomahawk fields, and the drilling of a Morrow formation test well. These development plans are contemplated to begin after the completion of the merger.

Net production at the Cato Properties for the three months ended March 31, 2010 was 241 BOEPD, which was 11 BOEPD lower as compared to 252 BOEPD for the quarter ended December 31, 2009. The 11 BOEPD decrease resulted from the reduction in injected water and redistribution of water injection at the waterflood. Net production at the Cato Properties for the nine months ended March 31, 2010 was 264 BOEPD. Net production at the Cato Properties for the three and nine months ended March 31, 2009 was 313 BOEPD and 284 BOEPD, respectively.

At the Cato Field, the gross cumulative production divided by the sum of gross cumulative production and gross proved reserves is approximately 50%.

Panhandle Properties. Proved reserves as of June 30, 2009 attributable to the Panhandle Properties were 28.9 MMBOE, of which 3.5 MMBOE were PDP and 25.4 MMBOE were PUD. In January 2010, Cano sold 17 producing and 2 non-producing wells at the Panhandle Properties comprising 0.5 MMBOE of proved reserves. Adjusting for the sale of these wells in the Panhandle Properties, the adjusted proved reserves at the Panhandle Properties would be 28.4 MMBOE, which comprised 3.0 MMBOE of PDP and 25.4 MMBOE of PUD. These properties include roughly 20,000 acres in Carson, Gray and Hutchinson Counties, Texas. Cano acquired the Panhandle Properties in November 2005. They are delineated in thirty-three leases the largest of which are Cockrell Ranch, Pond, Harvey, Mobil Fee, Cooper, Block and Schafer Ranch.

During the quarter ended June 30, 2009, Cano maintained its average daily water injection rate at the Cockrell Ranch Unit (its first Panhandle Properties waterflood) at roughly 75,000 barrels per day. This resulted in increasing its average daily production at the Cockrell Ranch Unit from approximately 80-100 net BOEPD between June and December 2008 to maintaining 100-120 net BOEPD production through June 30, 2009. While crude oil production continues to increase at Cockrell Ranch, the gains are below Cano's expectations. Based on actual performance of the waterflood through June 30, 2009, Cano reclassified 724 MBOE of PDP reserves back to PUD at June 30, 2009. After this reclassification, the remaining amount of the prior year conversion of PUD to PDP reserves is 674 MBOE.

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In the quarter ended September 30, 2009, Cano retained an independent engineering firm to assist it with reservoir analysis and simulation modeling at the Cockrell Ranch unit. Based on this engineering firm's recommendations, Cano established a controlled water injection pattern to gauge the effects of optimizing water injection into the highest remaining crude oil saturation intervals of the Brown Dolomite formation. Cano is essentially performing a "Mini-Flood" in the key target interval at the Cockrell Ranch unit. The result of this field observation, coupled with rigorous reservoir simulation modeling, is expected to demonstrate an optimal pattern for waterflooding the balance of the Cockrell Ranch unit with an increasingly predicable production profile. Moreover, the field observation and modeling results will improve the planning of future development programs for the remaining leases located within its Panhandle Properties. To isolate the observed wells, Cano had temporarily shut-in production during most of the quarter ended September 30, 2009, which reduced Panhandle production by 25 net BOEPD. All production that was shut-in for the controlled injection project was restored on September 28, 2009. Cano has experienced positive results from the controlled injection project. Oil production from wells in the affected area has increased to at or above target levels of 8-12 BOEPD on a per well basis. These results, coupled with the accompanying reservoir simulation modeling, should allow a comprehensive analysis of the potential for the Cockrell Ranch Unit. Results of the studies should be completed in the third calendar quarter of 2010.

Cano's original 2009 fiscal year waterflood capital development plan for the Panhandle Properties included six separate mini-floods on reduced well spacing to enable it to accelerate field development. Tighter well-spacing and smaller development patterns should accelerate permitting and response times, allowing a larger development footprint over a greater acreage position. The amended 2009 capital development plan provided for the development of only one mini-flood phase through June 2009 (the Harvey Unit). The Harvey Unit had its waterflood permit application approved by the Texas Railroad Commission on October 20, 2008. The Harvey Unit mini-flood consists of six injection wells and 13 producing wells (which required four new wells to be drilled among the existing wells at the field). The drilling of the four replacement injector wells was completed on January 5, 2009, thus completing the mini-flood pattern. Cano initiated injection at the Harvey Unit on March 30, 2009 at a rate of 2,500 barrels per day. During the 2009 fiscal year, Cano received approval of the mini-flood permits at the Pond Lease and at the Olive-Cooper Lease. As a result of the reduction in its capital plan and a focus on its Cato Properties, Cano slowed the filing of its Panhandle Properties mini-flood permits. Net production at the Panhandle Properties for June 2009 was 627 BOEPD.

Net production at the Panhandle Properties, as adjusted for the sale of certain Panhandle Properties, for the three and nine months ended March 31, 2010 was 481 BOEPD and 479 BOEPD, respectively. During the nine months ended March 31, 2010, Cano constructed gathering lines to redirect natural gas production from Eagle Rock Field Services L.P., which we refer to as Eagle Rock, to DCP Midstream, LP, which we refer to as DCP. As of March 31, 2010, Cano had redirected approximately 80% of the natural gas production previously delivered to Eagle Rock to DCP. Net production at the Panhandle Properties for the three and nine months ended March 31, 2009 was 498 BOEPD and 485 BOEPD, respectively.

In November 2009, at the Cockrell Ranch Unit, Cano performed an injection test of an Alkaline Surfactant Gas, which we refer to as ASG, recipe designed by the University of Texas, Austin, which we refer to as UT. The test involved injecting the ASG stream at the Cockrell 1R producing well. The five-day test allowed Cano to monitor surface pressure and rate measurements and analyze flow-back production data. Results from the test will allow Cano to evaluate ASG tertiary recovery potential for the Brown Dolomite reservoir in the Panhandle Properties.

At the Panhandle Properties, the gross cumulative production divided by the sum of gross cumulative production and gross proved reserves is approximately 73%.

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Desdemona Properties. Proved reserves as of June 30, 2009 attributable to the Desdemona Properties were 1.4 MMBOE, of which 0.1 MMBOE were PDP and 1.3 MMBOE were PDNP. Approximately 1.3 MMBOE of the reserves were attributable to the Duke Sand reservoir. Cano acquired the Desdemona Properties in May 2004. As of June 30, 2009, Cano had no proved reserves associated with its Barnett Shale natural gas wells.

Desdemona Properties Waterflood. Cano drilled and completed 11 required replacement wells to initiate the development of the Duke Sand Waterflood on the Desdemona Properties during the 2008 Fiscal Year having procured and completed infrastructure of the waterflood facilities in September 2007. Water injection commenced in September 2007. Through June 30, 2009, Cano has injected over 1.5 million barrels of water into a pilot location of the Duke Sand reservoir. The primary source of water for the waterflood was from its Barnett Shale natural gas wells. During July 2009, Cano shut-in its remaining Barnett Shale producing wells due to continued low natural gas prices. Accordingly, the source for water injection for its Duke Sand waterflood pilot ceased. Without a known economic source of water, Cano will not continue to defer expenditures associated with this waterflood. Therefore, Cano expensed $11.4 million during June 2009 for the aggregate deferred expenditures spent to implement this waterflood pilot. Cano continues to believe that this reservoir is an excellent secondary and tertiary recovery candidate; however, Cano does not have current plans to recommence injection for the foreseeable future. Cano has no proved reserves for the Duke Sand Waterflood pilot project.

Desdemona Properties Barnett Shale. Cano drilled and completed 15 vertical and 8 horizontal wells in the Barnett Shale during the 2007 and 2008 fiscal years. Due to the decline in natural gas commodity prices and based upon operating performance, there was uncertainty in the likelihood of developing PUDs associated with its Barnett Shale Properties. Therefore, during the quarter ended December 31, 2008, Cano recorded a $22.4 million pre-tax impairment to its Barnett Shale Properties and a $0.7 million pre-tax impairment to the goodwill associated with its subsidiary which holds the equity in our Barnett Shale Properties. During the quarter ended June 30, 2009, Cano recorded an additional $4.3 million pre-tax impairment to its Barnett Shale Properties as the forward outlook for natural gas prices continued to decline, as discussed in Note 9 to Cano's Consolidated Financial Statements.

Net production for June 2009 at the Desdemona Properties was 54 BOEPD.

During July 2009, Cano shut-in its Barnett Shale natural gas wells based upon the current and near-term outlook of natural gas prices and production from the Barnett Shale wells on a per-well basis.

Cano is in the midst of a project to return to production previously shut-in gas wells from the Duke Sand formation. Cano converted approximately 311 MBOE of previously PDNP reserves to PDP reserves with the return-to-production, which we refer to as RTP, of 12 previously shut-in wells in December 2009. Production increased from 46 BOEPD for the second quarter ending December 31, 2009 to 69 BOEPD for the three months ended March 31, 2010 without the benefit of selling any NGLs. Cano plans to RTP the remaining 13 wells during the quarter ended June 30, 2010. Production from all of the RTP gas wells, including associated NGL recovery from Cano's gas plant, is expected to be approximately 10-20 Mcfe per day for each gas well returned to production. Cano restarted its gas plant in April 2010 and expects to realize the full benefit of these produced volumes in May 2010.

During the three months ended March 31, 2010, Cano drilled one new well to a total depth of 3,650 feet to test the Marble Falls, Atoka and Strawn Sand formations. Cano has completed the new well in the Strawn Sand formation at a depth of 1,750 feet. The well had initial production, on April 16, 2010, of 20 BOPD, 50 MCFPD and 450 BWPD. Cano is currently evaluating three offset locations for future Strawn Sand development in the Desdemona Properties.

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Net production at the Desdemona Properties for the three and nine months ended March 31, 2010 was 69 BOEPD and 51 BOEPD, respectively. Net production at the Desdemona Properties for the three and nine months ended March 31, 2009 was 55 BOEPD and 61 BOEPD, respectively. During July 2009, Cano shut-in its Barnett Shale natural gas wells based upon the then current outlook for natural gas prices from the Barnett Shale wells.

Nowata Properties. Cano's akaline-surfactant-polymer, which we refer to as ASP tertiary recovery pilot project, which we refer to as ASP Pilot, has been in full operation since December 2007. Through June 30, 2009, Cano injected close to .40 PVI of ASP and polymer flush. Cano drilled and completed four observation wells in December 2008, to enable it to test flood-front results in the pilot project. Cano completed injecting its polymer flush during June 2009. Analyses of the ASP Pilot results are complete. While Cano achieved some positive reaction to the surfactant in the reservoir, it was determined that the ASP recipe designed by an outside consultant would not achieve viable economics to justify commercial project development. The recipe did not take into consideration certain factors which lead to significant absorption of the surfactant in the reservoir rock. Cano has since retained the UT to study the ASP Pilot results at Nowata and develop an alternate recipe. Using the actual results of the ASP Pilot and performing additional coreflood studies, UT believes they have developed a new and optimal recipe that shows exceptional recoveries can be achieved at Nowata on a commercial basis. UT's work demonstrates that there is another solution to designing an optimal plan of development going forward. Cano believes that the lessons learned in regard to actual plant design and operation, fluid handling, injection pressures and rates, and producing fluid properties, may benefit full field development in the future and similar projects that Cano may undertake at its other properties.

As a result of the non-commercial results from the ASP pilot, Cano recorded a $5.0 million pre-tax exploration expense during December 2009. There were no proved reserves associated with the ASP pilot project prior to the beginning of this pilot project.

Net production for the three and nine months ended March 31, 2010 was 222 BOEPD and 219 BOEPD, respectively. Net production for the three and nine months ended March 31, 2009 was 227 BOEPD and 222 BOEPD, respectively.

Davenport Properties. Proved reserves as of June 30, 2009 attributable to the Davenport Properties were 1.3 MMBOE, of which 0.7 MMBOE were PDP and 0.6 MMBOE were PDNP. Net production for the three and nine months ended March 31, 2010 was 78 BOEPD and 75 BOEPD, respectively. Net production for the three and nine months ended March 31, 2009 was 70 BOEPD for each time period. Cano acquired the Davenport Properties in May 2004.

Internal Controls Over Preparation of Proved Reserves Estimates

Upon completion of the merger, Resaca will adopt Cano's policies regarding internal controls over the recording of reserve estimates, which require reserve estimates to be in compliance with SEC rules, regulations and guidance and prepared in accordance with Standards Pertaining to the Estimating and Auditing of Oil and Gas Properties Information (Revision as of February 19, 2007) promulgated by the Society of Petroleum Engineers, which we refer to as SPE Standards. Our President and Chief Executive Operating Officer, or COO, Dennis Hammond, is the individual who will be responsible for overseeing the preparation of our reserve estimates and for internal compliance of our reserve estimates with SEC rules, regulations, guidance and SPE Standards. Mr. Hammond has over 30 years of industry experience with positions of increasing responsibility in engineering and evaluation of oil and gas properties. Mr. Hammond has a Bachelor of Science degree in petroleum engineering and is a registered professional engineer in the State of Texas. Mr. Hammond will report directly to our Chief Executive Officer. Our senior management, including our Chief Executive Officer and Chief Financial Officer, will review our reserves estimates before these estimates are finalized and disclosed in a public filing or presentation. In addition, Resaca's procedures will require that our reserve reports be prepared by a registered independent engineering firm at the end of every year based on information provided by our Engineering and Operations Department.

Our Engineering and Operations Department will accumulate historical production data for our wells, calculate historical lease operating expenses and differentials, update working interests and net revenue interests, obtain updated authorizations for expenditure and obtains logs, 3-D seismic and other geological and geophysical information. This data will be forwarded to Resaca's registered independent engineering firm, Haas. Haas will prepare a report of our estimated proved reserves in their entirety based on the information provided to them.

In accordance with applicable requirements of the SEC, estimates of our net proved reserves and future net revenues have historically been made using the price at the end of the period prior to the date of such reserve estimates and held constant throughout the life of the properties. Beginning with our fiscal year ended June 30, 2010, estimates of our net proved reserves and future net revenues will be made using average prices at the beginning of each month in the 12-month period prior to the date of such reserve estimates and held constant throughout the life of the properties (except to the extent a contract specifically provides for escalation). Estimated quantities of net proved reserves and future net revenues therefrom are affected by oil and natural gas prices, which have fluctuated widely in recent years.

There are numerous uncertainties inherent in estimating oil and natural gas reserves and their estimated values, including many factors beyond our control. The reserve data set forth in the reports of our registered independent engineering firms represents only estimates. Reservoir engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geologic interpretation and judgment. As a result, estimates of different engineers, including those used by us, may vary. In addition, estimates of reserves are subject to revision based upon actual production, results of future development and exploration activities, prevailing oil and natural gas prices, operating costs and other factors. The revisions may be material. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered and are highly dependent upon the accuracy of the assumptions upon which they are based. Our estimated net proved reserves, included in our SEC filings, have not been filed with or included in reports to any other federal agency. See "Risk Factors The present value of future net cash flows from Resaca's and Cano's proved reserves may not be the same as the current market value of Resaca's and Cano's estimated crude oil, natural gas and natural gas liquids, which we refer to as NGLs, reserves" on page I-70.

Estimates with respect to net proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations in the estimated reserves that may be substantial.

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Combined Company Production, Estimated Proved Reserves and Acreage

The following table shows selected data concerning our combined production, estimated proved reserve and acreage for the periods indicated on a pro forma combined basis:

Field	April 2010 Average Daily Production (BOE)	Total Est. Proved Reserves MMBOE (As of June 30, 2009)(1)	Percent of Total Est. Proved Reserves MMBOE	PV-10 (As of June 30, 2009) (In Millions)(1)	Gross Acres (As of May 28, 2010)(2)	Net Acres (As of May 28, 2010)(3)
Texas Properties						
Panhandle Properties	563	28.9	45.7%	$ 323.9	20,387	20,387
Penwell Complex	155	1.7	2.7%	19.8	3,120	3,120
Desdemona Properties	78	1.4	2.2%	7.1	11,264	11,264
Grand Clearfork Unit Properties	46	0.5	0.8%	4.6	1,120	1,120
Other Minor Properties	153	2.0	3.1%	31.4	7,890	7,823
New Mexico Properties						
Cato Properties	254	16.0	25.3%	116.5	21,122	20,662
Cooper Jal Unit Properties	364	9.8	15.5%	134.8	2,560	1,855
Other Minor Properties	7	0.2	0.3%	2.6	320	240
Oklahoma Properties						
Nowata Properties	223	1.5	2.4%	13.9	4,594	4,594
Davenport Properties	80	1.3	2.0%	9.9	2,178	2,178
Other Locations						
Total	**1,923**	**63.3**	**100.0%**	**$ 664.5**	**74,555**	**73,243**

(1) PV-10 is a non-GAAP financial measure and generally differs from the standardized measure of discounted future net cash flows, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes on future net revenues. At June 30, 2009, our standardized measure of discounted future net cash flows was $418.2 million on a combined basis as shown below. Our estimated proved reserves and future net revenues, PV-10, and standardized measure of discounted future net cash flows were determined using end of the period prices for oil and natural gas that Resaca and Cano realized as of June 30, 2009, which were $69.89 per Bbl of oil and $3.84 per MMBtu of natural gas and $69.89 per Bbl of oil and $3.71 per MMBtu of natural gas, respectively.

The following table shows the combined company's reconciliation of our PV-10 to the standardized measure of discounted future net cash flows. PV-10 is our estimate of the present value of future net revenues from estimated proved oil and gas reserves after deducting estimated production and ad valorem taxes, future capital costs and operating expenses, but before deducting any estimates of future income taxes. The estimated future net revenues are discounted at an annual rate of 10% to determine their "present value." We believe PV-10 to be an important measure for evaluating the relative significance of our oil and gas properties and that the presentation of the non-GAAP financial measure of PV-10 provides useful information to investors because it is widely used by professional analysts and sophisticated investors in evaluating oil and gas companies. Because there are many unique factors that can impact an individual company when estimating the amount of future income taxes to be paid, we believe the use of a pre-tax measure is valuable for evaluating our company. We believe that most other companies in the oil and gas industry calculate PV-10 on the same basis.

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PV-10 should not be considered as an alternative to the standardized measure of discounted future net cash flows as computed under GAAP.

(in millions)		Pro forma of June 30, 2009
PV-10	$	664.5
Less: Undiscounted income taxes		(689.8)
Plus: 10% discount factor		443.5
Discounted income taxes		(246.3)
Standard measure of discounted future net cash flows	$	418.2

(2) "Gross" acres refers to acreage in which we have a working interest.

(3) "Net" acres refers to the aggregate of our percentage working interest in gross acreage before royalties or other payouts, as appropriate.

Resaca's Proved Reserves

The following table summarizes Resaca's proved reserves as of June 30, 2009 and was prepared according to the rules and regulations of the SEC.

	Cooper Jal	Penwell	Grand Clearfork	Other	Total
Oil MBbls	8,180	1,428	504	1,856	11,968
Gas MMcf	9,921	1,748		1,630	13,299
Oil Equivalent (MBOE)	9,833	1,719	504	2,128	14,184

Resaca's proved oil and natural gas reserves as of June 30, 2009 have been prepared by Haas Petroleum Engineering Services, Inc. As defined in the SEC rules, proved reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions (i.e., prices and costs as of the date the estimate is made). Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Reservoirs are considered proved if economic productibility is supported by either actual production or conclusive formation tests. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir. Reserves which can be produced economically through application of improved recovery techniques (such as fluid injections) are included in the "proved" classification when successful testing by a pilot project, or the operations of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based. Due to the inherent uncertainties and the limited nature of reservoir data, such estimates are subject to change as additional information becomes available. The reserves actually recovered and the timing of production of these reserves may be substantially different from the original estimate. Revisions result primarily from new information obtained from development drilling, production history and from changes in economic factors.

As of June 30, 2009, Resaca's proved reserves equated to 14.2 MMBOE of proved reserves, consisting of 2.3 MMBOE (16%) of PDP reserves, 5.7 MMBOE (40%) of PDNP reserves and 6.2 MMBOE (44%) of PUD reserves.

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Reserves were estimated using crude oil and natural gas prices and production and development costs in effect on June 30, 2009. The crude oil and natural gas prices used in estimating Resaca's June 30, 2009 reserves were $69.89 per barrel and $3.84 per MMBtu, respectively. The values reported may not necessarily reflect the fair market value of the reserves.

Cano's Proved Reserves

The following table summarizes Cano's proved reserves as of June 30, 2009 and was prepared according to the rules and regulations of the SEC.

	Davenport	Desdemona	Cato	Panhandle	Nowata	Total
Oil MBbls	1,237	366	14,867	20,888	1,413	38,771
Gas MMcf	425	6,196	6,619	47,913	800	61,953
Oil Equivalent (MBOE)	1,308	1,399	15,970	28,873	1,547	49,097

Cano's proved oil and natural gas reserves as of June 30, 2009 have been prepared by Miller and Lents, Ltd., international oil and gas consultants.

Cano has not reported its reserves to any federal authority or agency other than the SEC pursuant to its filings with the SEC.

At June 30, 2009, Cano's proved reserves equated to 49.1 MMBOE of proved reserves, consisting of 7.7 MMBOE (16%) of PDP reserves, 2.4 MMBOE (5%) of PDNP reserves and 39.0 MMBOE (79%) of PUD reserves. Adjusting for Cano's sale of wells in the Panhandle Properties during January 2010, Cano's adjusted proved reserves at June 30, 2009 would be 48.6 MMBOE, which comprised 7.2 MMBOE of PDP, 2.4 MMBOE of PDNP, and 39.0 MMBOE of PUD; and crude oil reserves accounted for 80.2% of total proved reserves.

Reserves were estimated using crude oil and natural gas prices and production and development costs in effect on June 30, 2009. On June 30, 2009, crude oil and natural gas prices were $69.89 per barrel and $3.71 per MMBtu, respectively. The values reported may not necessarily reflect the fair market value of the reserves.

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Resaca's Operating Revenues

The following table presents Resaca's sales, unit prices and average unit costs for the years ended June 30, 2009, 2008, and 2007 and for the nine months ended March 31, 2010:

	Nine Months Ended March 31, 2010	Years Ended June 30, 2009	2008	2007
Operating Revenues(1): (000's)	$ 11,285	$ 14,567	$ 21,729	$ 15,069
Sales:				
Oil (MBbls)	143	189	204	223
Gas (MMcf)	184	287	309	328
MBOE	174	237	256	277
Average Price(1):				
Oil ($/Bbl)	$ 70.51	$ 65.29	$ 91.57	$ 56.92
Gas ($/Mcf)	$ 6.53	$ 6.55	$ 9.85	$ 7.28
$/BOE	$ 64.99	$ 61.45	$ 85.03	$ 54.31
Average Adjusted Price(2):				
Oil ($/Bbl)	$ 66.20	$ 60.60	$ 75.73	$ 58.27
Gas ($/Mcf)	$ 8.62	$ 8.20	$ 10.05	$ 7.65
$/BOE	$ 63.64	$ 59.70	$ 72.62	$ 55.84
Expense (per BOE):				
Lease operating	$ 26.43	$ 27.94	$ 27.42	$ 27.41
Production and ad valorem taxes	$ 4.43	$ 5.27	$ 6.51	$ 4.93
General and administrative expense, net(3)	$ 35.97	$ 29.89	$ 7.68	$ 5.60
Depreciation and depletion	$ 16.61	$ 14.22	$ 11.39	$ 10.21
Total	$ 83.44	$ 77.32	$ 53.00	$ 48.15

(1) Excludes the effect of realized gains or losses from commodity price risk management activities.

(2) Includes the effect of realized gains or losses from commodity price risk management activities.

(3) Includes share based compensation costs and Cano merger costs for the nine months ended March 31, 2010 and the year ended June 30, 2009.

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Cano's Operating Revenues

The following table presents Cano's sales, unit prices and average unit costs for the years ended June 30, 2009, 2008, and 2007 and for the nine months ended March 31, 2010.

	Nine Months Ended March 31, 2010	Years Ended June 30, 2009	2008	2007
Operating Revenues(1): (000's)	$ 16,368	$ 25,409	$ 34,650	$ 20,651
Sales:				
Crude Oil (MBbls)	208	309	249	223
Natural Gas (MMcf)	324	776	908	824
MBOE	262	438	401	360
Average Price(1):				
Crude Oil ($/Bbl)	$ 67.56	$ 62.17	$ 94.08	$ 61.96
Natural Gas ($/Mcf)	$ 7.17	$ 7.57	$ 11.99	$ 8.29
$/BOE	$ 62.49	$ 57.23	$ 85.72	$ 57.31
Average Adjusted Price(2)				
Crude Oil ($/Bbl)	$ 73.48	$ 75.84	$ 81.92	$ 62.17
Natural Gas ($/Mcf)	$ 15.09	$ 10.23	$ 12.84	$ 9.41
$/BOE	$ 76.97	$ 71.60	$ 79.26	$ 59.98
Expense (per BOE):				
Lease operating	$ 44.98	$ 42.96	$ 33.14	$ 24.24
Production and ad valorem taxes	$ 5.21	$ 5.37	$ 6.13	$ 4.70
General and administrative expense, net(3)	$ 35.73	$ 43.68	$ 37.10	$ 35.06
Depreciation and depletion	$ 13.84	$ 13.05	$ 9.74	$ 8.89
Total	$ 99.76	$ 105.06	$ 86.11	$ 72.89

(1) Excludes the effect of realized gains or losses from commodity price risk management activities.

(2) Includes the effect of realized gains or losses from commodity price risk management activities.

(3) Includes share-based compensation costs for each period presented and Resaca merger costs for the nine months ended March 31, 2010 and the year ended June 30, 2009.

Resaca's Productive Wells and Acreage

The following table shows Resaca's gross and net interests in productive oil and natural gas working interest wells as of May 28, 2010. Productive wells include wells currently producing or capable of production.

Gross(1) Oil	Gas	Total	Net(2) Oil	Gas	Total
425		425	404		404

(1) "Gross" refers to wells in which we have a working interest.

(2) "Net" refers to the aggregate of our percentage working interest in gross wells before royalties or other payout, as appropriate.

Resaca operates all of the gross producing wells presented above. As of May 28, 2010, Resaca had 33 wells containing multiple completions.

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As of May 28, 2010, Resaca had total acreage of 15,010 gross acres and 14,158 net acres, all of which was considered developed acreage. The definitions of gross acres and net acres conform to how Resaca determines gross wells and net wells. Developed acreage is assigned to producing wells. Undeveloped acreage is acreage under lease, permit, contract or option that is not in the spacing unit for a producing well, including leasehold interests identified for exploitation drilling.

Cano's Productive Wells and Acreage

The following table shows Cano's gross and net interests in productive oil and natural gas working interest wells as of May 28, 2010. Productive wells include wells currently producing or capable of production.

	Gross(1)			Net(2)	
Oil	**Gas**	**Total**	**Oil**	**Gas**	**Total**
1,846	88	1,934	1,836	88	1,924

(1) "Gross" refers to wells in which we have a working interest.

(2) "Net" refers to the aggregate of our percentage working interest in gross wells before royalties or other payout, as appropriate.

Cano operates all of the gross producing wells presented above. As of May 28, 2010, Cano had 17 wells containing multiple completions.

On May 28, 2010, Cano had total acreage of 59,545 gross acres and 59,085 net acres, all of which was considered developed acreage. The definitions of gross acres and net acres conform to how Cano determines gross wells and net wells. Developed acreage is assigned to producing wells. Undeveloped acreage is acreage under lease, permit, contract or option that is not in the spacing unit for a producing well, including leasehold interests identified for exploitation drilling.

Resaca's Drilling Activity

The following table shows Resaca's drilling activities on a net basis for the years ended June 30, 2009, 2008 and 2007 and for the nine months ended March 31, 2010. All of the wells below were productive.

	Nine Months Ended	Years Ended June 30,		
	March 31, 2010	**2009**	**2008**	**2007**
Exploratory Wells				
Development Wells		4.62		6.52
Total Wells Drilled		4.62		6.52

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Cano's Drilling Activity

The following table shows Cano's drilling activities on a gross basis for the years ended June 30, 2009, 2008 and 2007 and for the nine months ended March 31, 2010. Cano owns 100% working interests in all wells drilled.

	Nine Months Ended March 31, 2010	Years Ended June 30, 2009	2008	2007
	Gross(1)	Gross(1)	Gross(1)	Gross(1)
Exploratory				
Oil(3)		4		22
Development				
Gas(2)			4	19
Oil(3)	1	14	62	39
Abandoned(4)			2	
Total	1	18	68	80

(1) "Gross" is the number of wells in which we have a working interest.

(2) "Gas" means natural gas wells that are either currently producing or are capable of production.

(3) "Oil" means producing oil wells.

(4) "Abandoned" means wells that were dry when drilled or were abandoned without production casing being run.

Planned Development Program

We believe that our portfolio of oil and natural gas properties provides opportunities to apply our operational strategy. On a pro forma combined basis, as of June 30, 2009, we had estimated proved reserves of 63.3 MMBOE, of which 10.1 MMBOE were on PDP, 8.0 MMBOE were PDNP, and 45.2 MMBOE were PUD.

Our exploitation plan involves the reactivation of shut-in wells, recompletion of currently producing wells, implementation of new waterfloods, reactivation and optimization of the existing waterfloods, and enhancement of and conduct a significant infill drilling program. We believe our properties represent excellent opportunities for the development of low risk oil and gas reserves and many of our properties are excellent candidates for tertiary recovery by CO_2 flooding based on reports and studies performed on these properties. We will also continue to evaluate potential acquisition targets that are consistent with our operational strategy.

Waterflooding and EOR techniques involve significant capital investment and extended lead times of generally a year or longer from the initial phase of a program until production increases. As our capital budget exceeds expected cash from operations, our ability to successfully convert our PUD reserves to PDP reserves will be contingent upon our ability to obtain future financing. Further, there are inherent uncertainties associated with the production of oil and natural gas as well as price volatility.

Additionally, our combined company's reserve report at December 31, 2009 assumes we will spend approximately $51 million on development capital expenditures during calendar year 2010 to develop estimated proved nonproducing and proved undeveloped reserves. As a result of the timing of the closing of the merger, approximately $15 million of our development capital expenditures initially planned for calendar year 2010 have been deferred. On a combined basis, we expect to spend approximately $36 million on development capital expenditures through calendar year 2010, $4 million of which had been incurred at March 31, 2010.

Resaca's Present Development Activities

Resaca's present development activities primarily involve implementing and enhancing waterflood injection at the Cooper Jal Unit Properties, Penwell Properties, and the Grand Clearfork Unit Properties. In addition, as of December 18, 2009, Resaca was implementing a five gross well (3.625 net well) recompletion program at its Cooper Jal Unit Properties.

Cano's Present Development Activities

Cano's present development activities primarily involve implementing waterflood injection at the Cato and Panhandle Properties.

Delivery Commitments

At March 31, 2010, Resaca and Cano have no delivery commitments with their purchasers and currently have no delivery commitments.

Rig Acquisition

In July 2009, Resaca announced that it had reached agreement with PBWS, an affiliate of Resaca, to acquire a number of workover rigs, reversing units and related assets as well as real estate. Pursuant to the terms of the asset transfer agreement between Resaca and PBWS, Resaca acquired three mobile workover rigs, two reversing units and related power swivels, fishing tools, other ancillary tools and equipment, vehicles, trailers, construction equipment and spare parts, which we refer to as the Equipment, together with an office building, a shop and a yard in Odessa, Texas, which we refer to as the Office Space. In December 2009, Resaca vacated its prior offices and moved into the Office Space. Since Resaca's formation in 2006, PBWS had provided approximately 40%-60% of Resaca's workover and reversing unit services. These services were provided to Resaca on a priority basis, and the hourly rates were charged in accordance with industry rates. Resaca concluded, however, that there were economic and operational benefits to be gained from owning and operating the Equipment and owning the Office Space.

Torch E&P Company, which we refer to as Torch E&P, was issued 3,320,250 shares of Resaca common stock under the terms of the asset transfer agreement entered into by Resaca and PBWS. Torch E&P is a shareholder of Resaca and the parent company of PBWS. Torch E&P is 90%-owned by J.P. Bryan, Resaca's Chairman of the board of directors and 10%-owned by John J. Lendrum, III, Resaca's Chief Executive Officer. At the request of PBWS, the shares issued pursuant to the asset transfer agreement were issued directly to Torch E&P.

The assets acquired by Resaca pursuant to the asset transfer agreement were valued by two independent appraisers, an equipment specialist and a real estate specialist. The value ascribed to the assets by the independent appraiser was $1,593,720. Resaca paid consideration of $1,593,720 for the assets in the form of 3,320,250 new shares of Resaca common stock issued by Resaca for this purpose and representing 3.5% of the enlarged issued share capital of Resaca. The number of shares of Resaca common stock issued to Torch E&P was determined by dividing the purchase price by $0.48, which reflects the July 6, 2009 closing stock price on the AIM of £0.295 per share, converted at an exchange rate of U.S. $1.627 per British pound. The July 6, 2009 price reflects an approximate 12% premium over the trailing 30 day share price. As a 90% owner of Torch E&P, Mr. Bryan's interest in the consideration paid by Resaca for the rig acquisition is $1,434,348 and as a 10% owner of Torch E&P, Mr. Lendrum's interest in the consideration paid by Resaca for the rig acquisition is $159,372.

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The asset transfer agreement requires the ratification of the Rig Acquisition by Resaca's shareholders at the Resaca annual meeting.

Title/Mortgages

Our oil and natural gas properties are subject to customary royalty interests, liens incident to operating agreements, liens for current taxes and other burdens, including other mineral encumbrances and restrictions as well as mortgage liens in accordance with our credit agreements. We do not believe that any of these burdens materially interferes with the use of our properties in the operation of our business.

We believe that we have generally satisfactory title to or rights in all of our producing properties. When we make acquisitions, we make title investigations, but may not receive title opinions of local counsel until we commence drilling operations. We believe that we have satisfactory title to all of our other assets. Although title to our properties is subject to encumbrances in certain cases, we believe that none of these burdens will materially detract from the value of our properties or from our interest therein or will materially interfere with our use of them in the operation of our business.

Acquisitions

We regularly pursue and evaluate acquisition opportunities (including opportunities to acquire oil and natural gas properties and related assets or entities owning oil and natural gas properties or related assets, and opportunities to engage in mergers, consolidations or other business combinations with entities owning oil and natural gas properties or related assets) and at any given time may be in various stages of evaluating such opportunities. Such stages include: internal financial and oil and natural gas property analysis, preliminary due diligence, the submission of an indication of interest, preliminary negotiations and negotiation of a letter of intent or negotiation of a definitive agreement.

Customers

We sell our crude oil and natural gas production to multiple independent purchasers pursuant to contracts generally terminable by either party upon thirty days' prior written notice to the other party. During the year ended June 30, 2009, 10% or more of Resaca's total revenues were attributable to two customers accounting for 74% of the total. Shell Trading (US) Company accounted for 37% of revenues and ConocoPhillips accounted for 37% of revenues. During the year ended June 30, 2009, 10% or more of Cano's total revenues were attributable to five customers accounting for 32% (Valero Marketing Supply Co.), 18% (Coffeyville Resources Refinery and Marketing, LLC), 15% (Plains Marketing, LP), 13% (Eagle Rock), and 10% (DCP) of total operating revenue, respectively. On March 31, 2009, Cano received notice from Eagle Rock that it would be terminating its gas purchase agreement with Cano due to the decrease in oil and natural gas prices unless Cano agreed to accept Eagle Rock's proposed new pricing terms. Cano was unable to reach a new agreement with Eagle Rock. Beginning on June 2, 2009, Cano began selling natural gas production to Eagle Rock on a sliding scale based upon the volume of fluid it sells per each delivery point for both natural gas and NGLs. On August 4, 2009, Cano entered into a new Gas Purchase Contract, which we refer to as the DCP Agreement, with DCP, effective on July 1, 2009, which supersedes the previous gas purchase contract, as amended, with DCP. Previously, all of Cano's Panhandle Properties' leases and wells were dedicated to DCP and Eagle Rock. The new DCP Agreement dedicates all of Cano's Panhandle Properties' leases and wells to DCP. Subject to certain conditions, the term of the DCP Agreement runs until April 30, 2016 and, unless terminated upon 60 days' prior notice, continues thereafter on a year-to-year basis. Pursuant to the terms of the DCP Agreement, Cano will be paid on a sliding scale based upon the volume of NGLs and natural gas it sells per each delivery point. Cano will continue to sell, on a month-to-month basis, natural gas and NGLs in the Texas Panhandle to Eagle Rock until such time as

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any given well is added to new delivery points on the DCP pipeline. Revenue enhancements under the DCP Agreement will offset the effect of volumes sold to Eagle Rock.

Title to the produced commodities transfers to the purchaser at the time the purchaser collects or receives such commodities. Prices for such production are defined in sales contracts and are readily determinable based on certain publicly available indices. The purchasers of such production have historically made payment for crude oil and natural gas purchases within thirty-five days of the end of each production month. We periodically review the difference between the dates of production and the dates we collects payment for such production to ensure that receivables from those purchasers are collectible. The point of sale for our oil and natural gas production is at our applicable field gathering systems.

In the event that one or more of these significant purchasers ceases doing business with us, we believe that there are potential alternative purchasers with whom we could establish new relationships and that those relationships would result in the replacement of one or more lost purchasers. We would not expect the loss of any single purchaser to have a material adverse effect on our operations. However, the loss of a single purchaser could potentially reduce the competition for our crude oil and natural gas production, which could negatively impact the prices we receive.

Competition

The oil and gas industry is highly competitive. Our competitors include major oil companies as well as independent producers. We face competition from other oil and natural gas companies in all aspects of our business, including in the acquisition of producing properties and oil and natural gas leases, and in obtaining goods, services and labor. Many of our competitors have substantially greater financial and other resources than we do. Factors that affect our ability to acquire producing properties include available funds, available information about the property and our standards established for minimum projected return on investment.

We believe that our leasehold acreage position, workover rig assets, and technical and operational capabilities generally enable us to compete effectively. However, the natural gas and oil industry is intensely competitive and we face competition in each of our geographical areas. We believe our geographic concentration of operations enable us to compete effectively. We believe the type, age and condition of our workover rigs, the quality of our crews and the responsiveness of our management generally enable us to provide quality services that benefit our oil and gas exploitation activities and provides competitive strength. However, we compete with companies that have greater financial and personnel resources than we do. These companies may be able to pay more for producing properties and undeveloped acreage. In addition, these companies may have a greater ability to continue exploitation activities during periods of low natural gas and oil market prices. Our larger or integrated competitors may be able to absorb the burden of any existing and future federal, state, and local laws and regulations more easily than we can, which would adversely affect our competitive position. Our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. In addition, because we have fewer financial and human resources than many companies in our industry, we may be at a disadvantage in bidding for oil and natural gas properties.

Leased Properties

We pay a monthly fee to Torch for the use of (a) a portion of Torch's 25,696 square feet of office space located in Houston, Texas and (b) Torch's office equipment, machinery, certain facilities personnel and shared administrative personnel.

We also lease 24,303 square feet of office space in Ft. Worth, Texas. Cano has retained a broker to sublease the Ft. Worth office space in order to reduce office space rental expense.

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Legal Proceedings

Both Cano and Resaca are subject to periodic lawsuits, investigations and claims, including environmental claims and employee related matters, arising in the ordinary conduct of their respective businesses. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we do not believe that any currently pending legal proceedings to which we are a party that are not set forth below will have a material adverse effect on our respective businesses, results of operations, cash flows or financial condition. Managements' position is supported, in part, by the existence of insurance coverage, indemnification and escrow accounts.

Cano's Legal Proceedings

Fire Litigation

On March 23, 2006, the following lawsuit was filed in the 100th Judicial District Court in Carson County, Texas; Cause No. 9840, 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, Ltd. v. Cano Petroleum, Inc., W.O. Energy of Nevada, Inc., W. O. Operating Company, Ltd. and WO Energy, Inc. The plaintiffs claim that the electrical wiring and equipment of Cano or certain of its subsidiaries relating to oil and natural gas operations started a wildfire that began on March 12, 2006 in Carson County, Texas.

The plaintiffs (i) allege negligence and gross negligence and (ii) seek damages, including, but not limited to, damages for damage to their land and livestock, certain expenses related to fighting the fire and certain remedial expenses totaling approximately $1.7 million to $1.8 million. In addition, the plaintiffs seek (i) termination of certain oil and natural gas leases, (ii) reimbursement for their attorney's fees (in the amount of at least $549,000) and (iii) exemplary damages. The plaintiffs also claim that Cano and its subsidiaries are jointly and severally liable as a single business enterprise and/or a general partnership or de facto partnership. The owner of the remainder of the mineral estate, Texas Christian University, intervened in the suit on August 18, 2006, joining Plaintiffs' request to terminate certain oil and gas leases. On June 21, 2007, the judge of the 100th Judicial District Court issued a Final Judgment (a) granting motions for summary judgment in favor of Cano and certain of its subsidiaries on plaintiffs' claims for (i) breach of contract/termination of an oil and gas lease; and (ii) negligence; and (b) granting the plaintiffs' no-evidence motion for summary judgment on contributory negligence, assumption of risk, repudiation and estoppel affirmative defenses asserted by Cano and certain of its subsidiaries.

The Final Judgment was appealed and a decision was reached on March 11, 2009, as the Court of Appeals for the Tenth District of Texas in Amarillo affirmed in part and reversed in part the ruling of the 100th Judicial District Court. The Court of Appeals (a) affirmed the trial court's granting of summary judgment in Cano's favor for breach of contract/termination of an oil and gas lease and (b) reversed the trial court's granting of summary judgment in Cano's favor on plaintiffs' claims of Cano's negligence. The Court of Appeals ordered the case remanded to the 100th Judicial District Court. On March 30, 2009, the plaintiffs filed a motion for rehearing with the Court of Appeals and requested a rehearing on the affirmance of the trial court's holding on the plaintiffs' breach of contract/termination of an oil and gas lease claim. On June 30, 2009, the Court of Appeals ruled to deny the plaintiff's motion for rehearing. On August 17, 2009, Cano filed an appeal with the Texas Supreme Court to request the reversal of the Court of Appeals ruling regarding its potential negligence. On December 11, 2009, the Texas Supreme Court declined to hear Cano's appeal. Therefore, this case will be remanded to the district court for trial on the negligence claims. The case has been set for trial on November 2, 2010.

Due to the inherent risk of litigation, the ultimate outcome of this case is uncertain and unpredictable. At this time, Cano management continues to believe that this lawsuit is without merit and will continue to vigorously defend itself and its subsidiaries, while seeking cost-effective solutions to

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resolve this lawsuit. Based on Cano's knowledge and judgment of the facts, Cano believes its financial statements present fairly the effect of actual and anticipated ultimate costs to resolve these matters as of December 31, 2009.

There is no remaining insurance coverage for any claims associated with this fire litigation.

Securities Litigation

On October 2, 2008, a lawsuit (08 CV 8462) was filed in the United States District Court for the Southern District of New York, against David W. Wehlmann; Gerald W. Haddock; Randall Boyd; Donald W. Niemiec; Robert L. Gaudin; William O. Powell, III and the underwriters of the June 26, 2008 public offering of Cano common stock, which is referred to as the Secondary Offering, alleging violations of the federal securities laws. Messrs. Wehlmann, Haddock, Boyd, Niemiec, Gaudin and Powell were Cano outside directors on June 26, 2008. At the defendants' request, the case was transferred to the United States District Court for the Northern District of Texas (4:09-CV-308-A).

On July 2, 2009, the plaintiffs filed an amended complaint that added as defendants Cano, Cano's Chief Executive Officer and Chairman of the Board, Jeff Johnson, Cano's former Senior Vice President and Chief Financial Officer, Morris B. "Sam" Smith, Cano's current Senior Vice President and Chief Financial Officer, Ben Daitch, Cano's Vice President and Principal Accounting Officer, Michael Ricketts and Cano's Senior Vice President of Engineering and Operations, Patrick McKinney, and dismissed Gerald W. Haddock, a former director of Cano, as a defendant. The amended complaint alleges that the prospectus for the Secondary Offering contained statements regarding Cano's proved reserve amounts and standards that were materially false and overstated Cano's proved reserves. The plaintiffs sought to certify the lawsuit as a class action lawsuit; however, the case was dismissed prior to the issue of class certification being addressed. On July 27, 2009, the defendants moved to dismiss the lawsuit. On December 3, 2009, the U.S. District Court for the Northern District of Texas granted motions to dismiss all claims brought by the plaintiffs. On December 18, 2009, the plaintiffs filed a notice of appeal with the United States Court of Appeals for the Fifth Circuit. On April 5, 2010, Cano filed its appellate brief in support of its position. On April 19, 2010, the plaintiffs filed their response brief. Due to the inherent risk of litigation, the outcome and the damages, if any of this lawsuit and uncertain and unpredictable; however, Cano, its officers and its outside directors intend to vigorously defend the lawsuit.

Cano is cooperating with its directors and officers liability insurance carrier regarding the defense of the lawsuit. We believe that the potential amount of losses resulting from this lawsuit in the future, if any, will not exceed the policy limits of Cano's directors' and officers' liability insurance.

Other

None of Cano's directors, officers or affiliates, owners of record or beneficial owners of more than five percent of any class of Cano's voting securities, or security holder is involved in a proceeding adverse to Cano or its subsidiaries or has a material interest adverse to Cano or its subsidiaries.

Employees

We expect to have approximately 80 employees following the completion of the merger.

Resaca Employees

As of May 28, 2010, Resaca had approximately 29 employees serving in various capacities. None of Resaca's employees is party to a collective bargaining agreement. Resaca considers its relationship with its employees to be good. In addition to our full-time employees, Resaca hires project labor and staff

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for its drilling operations from time to time and on an as-needed basis. Contract employees may range from 3 to 5 people for any particular project.

Cano Employees

As of May 28, 2010, Cano and its wholly-owned subsidiaries had 59 employees, all of whom are full-time employees. None of Cano's employees are represented by a union. Cano has never experienced an interruption in operations from any kind of labor dispute, and Cano considers the working relationships among the members of its staff to be generally good.

Operating Risks and Insurance

Our operations involve the handling of hazardous materials and explosives and are conducted in a variety of challenging environments. As a result we could become subject to personal injury or real property damage claims. Although we maintain insurance which we consider to be adequate for our needs, our policies may not cover all claims. In addition, under certain circumstances we could become liable for the claims of the employees and agents of our clients injured while onsite during our drilling activities. Such claims may not be covered under the indemnification provisions in our general service agreements.

We do not carry insurance against certain risks that we could experience, such as business interruption resulting from equipment maintenance or weather delays. We obtain insurance against certain property and personal casualty risks and other risks when such insurance is available and when our management considers it advisable to do so. Our general service agreements require us to have specific amounts of insurance. There can be no assurance, however, that any insurance obtained by us will be adequate to cover any losses or liabilities, or that this insurance will continue to be available or available on terms which are acceptable to us. Liabilities for which we are not insured, or which exceed the policy limits of our applicable insurance, could have a material adverse effect on us.

Regulation

Governmental Regulation

Our operations are subject to extensive and continually changing regulation affecting the oil and natural gas industry. Many departments and agencies, both federal and state, are authorized by statute to issue, and have issued, rules and regulations binding on the oil and natural gas industry and its individual participants. The failure to comply with such rules and regulations can result in substantial penalties. The regulatory burden on the oil and natural gas industry increases our cost of doing business and, consequently, affects our profitability. We do not believe that we are affected in a significantly different manner by these regulations than are our competitors.

The production of crude oil and natural gas is subject to regulation under a wide range of state and federal statutes, rules, orders and regulations. State and federal statutes and regulations require permits for drilling operations, drilling bonds and reports concerning operations. Texas, Oklahoma and New Mexico, the states in which we own and operate properties, have regulations governing conservation matters, including provisions for the unitization or pooling of oil and natural gas properties, the establishment of maximum rates of production from oil and natural gas wells, the spacing of wells, and the plugging and abandonment of wells and removal of related production equipment. Texas, Oklahoma and New Mexico also restrict production to the market demand for crude oil and natural gas. These regulations can limit the amount of oil and natural gas we can produce from our wells, limit the number of wells, or limit the locations at which we can conduct drilling operations. Moreover, each state generally imposes a production or severance tax with respect to production and sales of crude oil, natural gas and gas liquids within its jurisdiction.

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Transportation and Sale of Natural Gas

On a pro forma combined basis, the combined company's natural gas sales revenue were approximately 19% of our total sales revenue during the year ended June 30, 2009 and approximately 16% of our total sales revenue during the nine months ended March 31, 2010. The interstate transportation and sale for resale of natural gas is subject to federal regulation, including transportation rates and various other matters, by the Federal Energy Regulatory Commission, which we refer to as FERC. Federal wellhead price controls on all domestic natural gas were terminated on January 1, 1993, and none of our natural gas sales prices are currently subject to FERC regulation. We cannot predict the impact of future government regulation on our natural gas operations.

Insurance

The combined company anticipates structuring a commercial insurance program for the combined company which resembles the programs that Resaca and Cano have individually maintained, except that limits may be increased as appropriate. The program will include (1) general liability coverage for bodily injury and property damage; (2) automobile liability and physical damage insurance with respect to the combined company's vehicle fleet and for any leased vehicles; (3) workers compensation insurance with respect to the individuals employed by Resaca Operating Company, which we refer to as ROC; (4) property insurance with respect to the combined company's equipment; (5) control of well insurance with respect to certain of the combined company's oil and gas producing properties and (6) Directors and Officers Liability and Employer Liability insurance for the combined company which takes into consideration the combined company's profile as a publicly traded entity in both the U.K. and the United States. Workers compensation insurance for the remaining employees of Resaca is provided by Administaff, our professional employer organization.

Environmental Regulations

Our operations are subject to numerous stringent and complex laws and regulations at the federal, state and local levels governing the discharge of materials into the environment or otherwise relating to human health and environmental protection. These laws and regulations may, among other things, require acquisition of a permit before drilling or development commences, restrict the types, quantities and concentrations of various materials that can be released into the environment in connection with development and production activities, and limit or prohibit construction or drilling activities in certain ecologically sensitive and other protected areas. Failure to comply with these laws and regulations or to obtain or comply with permits may result in the assessment of administrative, civil and criminal penalties, imposition of remedial requirements and the imposition of injunctions to force future compliance. Our business and prospects could be adversely affected to the extent laws are enacted or other governmental action is taken that prohibits or restricts our development and production activities or imposes environmental protection requirements that result in increased costs to us or the oil and natural gas industry in general.

We conduct our development and production activities to comply with all applicable environmental regulations, permits and lease conditions, and we monitor subcontractors for environmental compliance. While we believe our operations conform to those conditions, we remain at risk for inadvertent noncompliance, conditions beyond our control and undetected conditions resulting from activities of prior owners or operators of properties in which we own interests.

To date, the Resaca and Cano's expenditures to comply with environmental or safety regulations have not been significant and the combined company's are not expected to be significant in the future. However, new regulations, enforcement policies, claims for damages or other events could result in significant future costs.

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Occupational Safety Regulation

We are subject to various federal and state laws and regulations intended to promote occupational health and safety. Although all of our wells are drilled by independent subcontractors under our "footage" or "day rate" drilling contracts, we have adopted environmental and safety policies and procedures designed to protect the safety of our own supervisory staff and to monitor all subcontracted operations for compliance with applicable regulatory requirements and lease conditions, including environmental and safety compliance. This program includes regular field inspections of our drill sites and producing wells by members of our operations staff and internal assessments of our compliance procedures. We consider the cost of compliance a manageable and necessary part of our business.

Federal, State or Native American Leases

Our operations on federal, state or Native American oil and natural gas leases are subject to numerous restrictions, including nondiscrimination statutes. Such operations must be conducted pursuant to certain on-site security regulations and other permits and authorizations issued by the Bureau of Land Management, Minerals Management Service and other agencies.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF RESACA

The following discussion and analysis should be read in conjunction with "Unaudited Pro Forma Combined Financial Data," "Selected Historical Consolidated Financial Data of Resaca," "Selected Historical Consolidated Financial Data of Cano" and the financial statements and related notes included elsewhere in this proxy statement. The following discussion and analysis contains forward-looking statements are dependent upon events, risks and uncertainties that may be outside our control. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the volatility of oil and gas prices, production timing and volumes, estimates of proved reserves, operating costs and capital expenditures, economic and competitive conditions, regulatory changes and other uncertainties, as well as those factors discussed below and elsewhere in this proxy statement, particularly in "Risk Factors" and "Cautionary Statements Concerning Forward-Looking Statements," all of which are difficult to predict. As a result of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur.

Overview

Introduction

Resaca is an independent oil and gas exploitation company headquartered in Houston, Texas. Resaca exploits known, mature, proven and probable low-risk oil and gas reserves, as opposed to generally pursuing exploratory operations. Resaca utilizes existing technology to achieve secondary and tertiary hydrocarbon recovery. Resaca's activities are focused in the Permian Basin of West Texas and southeast New Mexico. In the merger with Cano, Resaca will acquire additional assets in Texas, New Mexico and Oklahoma.

Resaca was formed in 2006 to exploit a number of oil and gas properties in the Permian Basin of the United States. Resaca's common stock was admitted to trading on the AIM on July 17, 2008.

The Merger

On September 30, 2009, Cano and Resaca announced that their respective boards of directors had approved the merger agreement that provides for the acquisition of Cano by Resaca. Closing is anticipated before the end of June 2010; however, it is possible that factors outside of either company's control could require us to complete the merger at a later time or not to complete it at all.

Under the terms of the merger agreement, holders of Cano common stock will receive 2.1 shares (or 0.42 shares after giving effect to the Reverse Stock Split) of Resaca common stock for each share of Cano common stock held, and the existing holders of Cano preferred stock will receive one share of preferred stock of Resaca for each share of Cano preferred stock held. The merger is intended to be a tax-free transaction to the Cano stockholders to the extent the Cano common stockholders receive Resaca common stock and the Cano preferred stockholders receive Resaca preferred stock in the merger.

Consummation of the transactions contemplated by the merger agreement is conditioned upon, among other things, (1) approval of the holders of the Cano common stock and Cano preferred stock, (2) approval of the holders of Resaca common stock, (3) the listing of Resaca common stock on the NYSE Amex, (4) the refinancing of existing bank debt of Resaca and Cano, (5) the receipt of required regulatory approvals, (6) Resaca's application for readmission to the AIM, which is anticipated to occur simultaneous with the closing of the merger, (7) the effectiveness of a registration statement relating to the shares of Resaca common stock to be issued in the merger, and (8) the approval of the Incentive Plan Amendment by the holders of Resaca common stock. The merger agreement contains certain termination rights for each of Cano and Resaca, including the right to terminate the merger agreement to enter into a Superior Proposal (as such term is defined in the merger agreement). In the event of a termination of the merger agreement under certain specified circumstances described in the merger agreement, one party will be required to pay the other party a termination fee of $3.5 million.

Cano entered into stock voting agreements with 75% of the holders of Cano's preferred stock on various dates between September and November 2009. Each stock voting agreement contains the same terms and provides, among other things, that each of the preferred holders will vote all its shares of stock (a) in favor of an amendment to the Certificate of Designations, Preferences and Rights of Series D Convertible Preferred Stock of Cano, which we refer to as the Series D Amendment, (b) in favor of adoption of the merger agreement, and (c) in accordance with the recommendation of our Board of Directors in connection with any Target Acquisition Proposal (as such term is defined in the merger agreement). The Series D Amendment generally provides that the holders of Cano preferred stock shall have no rights arising from the merger with Resaca (including any right to require us to redeem their shares of Cano preferred stock) other than the right to receive the merger consideration specified in the merger agreement. To be effective, the Series D Amendment must be approved by the holders of a majority of the shares of Cano preferred stock, voting as a separate class, and by the holders of a majority of the shares of Cano common stock, voting as a separate class, and then filed by us with the Secretary of State of Delaware.

The Combined Company

Due to Resaca's and Cano's complementary asset bases and similar strategic focus, Resaca believes that the combined company will benefit from (i) balancing Resaca's near-term growth opportunities with Cano's longer-term development opportunities, (ii) capitalizing on significant cost savings and efficiencies through operational and administrative synergies in the range of $4.5 million to $5.0 million per year, (iii) increasing near-term production by the sharing of engineering expertise among Resaca and Cano management and staff, (iv) optimizing our larger and more diverse portfolio of combined assets, and (v) expanding our access to capital because of the combined company's increased size.

Resaca and Cano's estimated combined June 30, 2009 proved reserves of 63.3 MMBOE, included 10.1 MMBOE of PDP, 8.0 MMBOE of PDNP, and 45.2 MMBOE of PUD. Reserves were estimated using NYMEX, crude oil and natural gas prices and production and development costs in effect on June 30, 2009. NYMEX crude oil price used in the estimation of Resaca's and Cano's reserves was $69.89 per barrel. NYMEX natural gas prices used in the estimation of Resaca's and Cano's reserves were $3.84 per MMBtu and $3.71 per MMBtu, respectively. The values reported may not necessarily reflect the fair market value of the reserves. For a more detailed description of the combined company's reserves, please read "Business and Properties Combined Company Production, Estimated Proved Reserves and Acreage" beginning on page III-12 of this proxy statement.

Resaca and Cano's properties are contained in eight primary field complexes and a group of minor fields in Texas, New Mexico and Oklahoma and consist of approximately 75,000 gross and 73,000 net acres. At May 28, 2010, on a pro forma combined basis, we operated approximately 1,904 active wells, including 1,501 producing wells, 391 waterflood injection wells, and 12 salt water disposal wells. For the month ended April 30, 2010, on a pro forma combined basis, we produced an average of 1,923 net BOE per day from over 25 separate formations, which was composed of approximately 76% oil and approximately 24% natural gas. Nearly all of Resaca and Cano's production is from relatively shallow formations.

Resaca and Cano's exploitation plan involves the reactivation of shut-in wells, recompletion of currently producing wells, including refracturing, implementation of new waterfloods, reactivation and optimization of existing waterfloods and an infill drilling program. Resaca believes the combined properties contain many opportunities for the development of low risk oil and gas reserves and many of

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the properties are candidates for tertiary recovery by CO_2 flooding based on reports and studies performed on these properties.

For the year ended June 30, 2009, Resaca and Cano generated pro forma combined operating revenues of $43.1 million and pro forma combined net income of $25.8 million. For the nine months ended March 31, 2010, Resaca and Cano generated pro forma combined operating revenues of $28.7 million and pro forma combined net loss of $17.9 million.

The following table shows selected data concerning our combined production, estimated proved reserves and acreage for the periods indicated on a proforma combined basis:

Field	April 2010 Average Daily Production (BOE)	Total Est. Proved Reserves MMBOE (As of June 30, 2009)(1)	Percent of Total Est. Proved Reserves MMBOE	PV-10 (As of June 30, 2009) (In Millions)(1)	Gross Acres (As of May 28, 2010)(2)	Net Acres (As of May 28, 2010)(3)
Texas Properties						
Panhandle Properties	563	28.9	45.7%	$ 323.9	20,387	20,387
Penwell Properties	155	1.7	2.7%	19.8	3,120	3,120
Desdemona Properties	78	1.4	2.2%	7.1	11,264	11,264
Grand Clearfork Unit Properties	46	0.5	0.8%	4.6	1,120	1,120
Other Minor Properties	153	2.0	3.1%	31.4	7,890	7,823
New Mexico Properties						
Cato Properties	254	16.0	25.3%	116.5	21,122	20,662
Cooper Jal Unit Properties	364	9.8	15.5%	134.8	2,560	1,855
Other Minor Properties	7	0.2	0.3%	2.6	320	240
Oklahoma Properties						
Nowata Properties	223	1.5	2.4%	13.9	4,594	4,594
Davenport Properties	80	1.3	2.0%	9.9	2,178	2,178
Total	**1,923**	**63.3**	**100.0%**	**$ 664.5**	**74,555**	**73,243**

(1) PV-10 is a non-GAAP financial measure and generally differs from the standardized measure of discounted future net cash flows, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes on future net revenues. At June 30, 2009, our standardized measure of discounted future net cash flows was $418.2 million on a combined basis as shown in "Business and Properties Combined Company Production, Estimated Proved Reserves and Acreage" beginning on page III-12.

(2) "Gross" acres refers to acreage in which we have a working interest.

(3) "Net" acres refers to the aggregate of our percentage working interest in gross acreage before royalties or other payouts, as appropriate.

Realized Commodity Prices

Factors Affecting the Sales Price of Oil, NGLs and Gas:

Resaca and Cano market oil, NGLs and gas production to a variety of purchasers and the values received are typically based on regional pricing. The relative prices of oil, NGLs and gas are determined by factors impacting global and regional supply and demand dynamics, such as economic conditions, production and storage levels, weather cycles and other events. In addition, relative prices are heavily influenced by product quality and location relative to consuming and refining markets.

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Oil Prices

The NYMEX futures price of crude oil is a widely used benchmark in the pricing of domestic and imported oil in the United States. The actual prices realized by us from the sale of oil differ from the quoted NYMEX price as a result of quality and location differentials.

Quality differentials result from the fact that oils differ from one another due to their different molecular makeup which plays an important part in their refining and subsequent sale as petroleum products. Among other things, there are two characteristics that commonly drive quality differentials: (1) the oil's American Petroleum Institute gravity, which we refer to as API gravity, and (2) the oil's percentage of sulfur content by weight. In general, lighter oil (with higher API gravity) produces more lighter products, such as gasoline, at a lower refining cost than the heavier oil. The higher light product yield at a lower refining cost results in a higher market price for the lighter oils versus the heavier oils. Oil with low sulfur content ("sweet" crude oil) is less expensive to refine and, as a result, normally sells at a higher price than the high sulfur-content oil ("sour" crude oil).

Location differentials result from variances in transportation costs based on the produced oil's type of transportation (truck or pipeline) and proximity to the major refining centers and consumer markets to which it is ultimately delivered. Oil that is produced closer to these major centers and markets incurs lower transportation costs as compared to oil that is produced further from such centers and markets and, consequently, realizes a higher price (i.e., a lower location differential to NYMEX).

The oil produced from our properties is generally a mid average API gravity with a sour crude adjustment and approximately half is trucked to pipeline receiving stations and half is delivered directly into crude oil pipelines.

NGL Prices

Raw natural gas produced in conjunction with crude oil is infused with NGLs and is typically referred to as "wet gas." Wet gas is generally sold at the wellhead and transported by the purchaser to a gas processing and conditioning plant where the NGLs and other impurities are separated from the wet gas leaving a dry pipeline quality residue gas which is delivered and sold directly into a pipeline at the plant tailgate. The NGLs are typically transported from the gas processing plant by pipeline for further fractionation at Mont Belvieu, Texas which is strategically located near the Houston ship channel petro-chemical and refining complex.

NGLs are generally composed of five marketable components, which, ordered from lightest to heaviest, are: (1) ethane, (2) propane, (3) isobutane, (4) normal butane and (5) normal gasoline. Once fractionated, these components are used as feedstocks in the petro-chemical business and as additives in gasoline blends. The heavier liquid components normally realize higher prices than the lighter components.

Virtually all of our wellhead gas production is sent through a gas processing plant. The NGLs recovered from the processing of our wet gas are sold at Mont Belvieu posted prices for each fractionated liquid component product. A portion of our NGL and dry gas residue value is retained by the gas processing plants as compensation for gathering and processing our wet gas into the NGL and dry gas residue components, which is commonly referred to as a percent of proceeds arrangement. Our realized NGL price is generally correlated with the NYMEX oil price. Our NGL differential primarily takes into account the relative liquid component mix, the discount that NGLs sell relative to oil and the effects of the NGL value deduction retained by the gas processing plants under our contracts.

Gas Prices

The NYMEX price of gas is a widely used benchmark for the pricing of gas in the United States. Similar to oil, the actual prices realized from the sale of gas differ from the quoted NYMEX price as a result of quality and location differentials.

Wet gas with a high Btu content typically sells at a premium to low Btu content wet gas because high Btu content wet gas yields a greater quantity of NGLs. Gas with low sulfur content sells at a premium to high sulfur content gas because the cost to extract the sulfur from the gas and render it marketable exceeds the market value of the recovered sulfur.

Location differentials to NYMEX prices result from variances in transportation costs based on the gas' proximity to major consuming markets to which it is ultimately delivered. Also affecting the differential are the effects of the dry gas value deduction retained by the gas processing plant. The dry gas residue is generally sold based on index prices in the region. Generally, these index prices have historically been at a discount to NYMEX gas prices.

Hedging Transactions

Resaca and Cano have entered into and plan to continue entering into derivative instruments to mitigate the impact of commodity price volatility on our cash flow from operations. For an explanation of the derivative instruments we have entered into to manage exposure to volatility of commodity market prices, please read "   The Combined Company's Quantitative and Qualitative Disclosures About Market Risk."

Production Costs

Production costs are the costs incurred in the operation of producing and processing our production and are primarily comprised of lease operating expense, workover costs and production and ad valorem taxes. In general, lease operating expense and workover costs represent the components of production costs over which we have management control, while production taxes and ad valorem taxes are directly related to changes in commodity prices. Additionally, certain components of lease operating expense are impacted by energy and field services prices. For example, Resaca and Cano incur power costs in connection with various production related activities such as pumping to recover oil and gas, injecting water in the water floods and separation and treatment of water produced in connection with our production. Although these costs are highly correlated with production volumes, they are influenced not only by production volumes but also by utility rates, inflation of field services costs and volumes of water produced. Certain items, however, such as direct labor and materials and supplies, generally remain relatively fixed across broad production volume ranges, but can fluctuate depending on activities performed during a specific period. For instance, repairs to Resaca and Cano pumping water equipment, injection pumps or surface facilities result in increased expenses in periods during which they are performed.

Every state regulates the development, production, gathering and sale of oil and gas, including imposing production taxes and requirements for obtaining drilling permits. In general, each state imposes a production tax on the underlying value of the oil, NGLs and gas.

Outlook

Significant factors that may impact future commodity prices include (i) developments in issues currently impacting Venezuela, Iraq, Iran and the Middle East in general, (ii) the extent to which members of the Organization of Petroleum Exporting Countries and other oil exporting nations are able to continue to manage oil supply through export quotas and (iii) overall North American gas supply and demand fundamentals, including the impact of increasing liquefied natural gas deliveries to the United States. Although Resaca cannot predict the occurrence of events that will affect future commodity prices or the degree to which these prices will be affected, the prices for any commodity that we produce will generally approximate market prices in the geographic region of the production.

In order to address, in part, volatility in commodity prices, Resaca and Cano have implemented a commodity price risk management program that is intended to reduce the volatility in our revenues and support our New Facility. Accordingly, Resaca has adopted a policy that contemplates hedging oil and gas prices for approximately 75-80% of our PDP production for three to five years. Implementation of this policy will mitigate, but will not eliminate, Resaca's sensitivity to short-term changes in commodity prices.

CO_2 Enhanced Oil Recovery

Resaca's Cooper Jal, Penwell and Grand Clearfork Unit Properties were originally developed in the mid 1950s, with development and waterflood initiation continuing until the mid 1970s, at a time of significantly lower oil and natural gas prices and prior to the availability of current completion and fracturing techniques and the development of technologies which greatly enhance the exploitation of proved reserves. In addition to Resaca's other exploitation opportunities, Resaca believes these properties are excellent candidates for tertiary recovery by CO_2 flooding based on reports and studies on these properties. The use of CO_2 for this type of enhanced recovery has revitalized many older proven oil producing fields in the Permian Basin. Several major companies are operating CO_2 floods in the region and some of our properties were identified in a report dated February 2006 prepared by Advanced Resources International for the U.S. Department of Energy entitled "Basin Oriented Strategies for CO_2 Enhanced Oil Recovery: Permian Basin" as being amenable to CO_2 enhanced oil recovery. Furthermore, many of our properties are located near existing CO_2 pipelines.

Merger Related Cost Savings

Resaca expects to reduce combined general and administrative expenses and lease operating expense, which we refer to as LOE, by approximately $4.5 to 5.0 million per year as compared to Resaca's and Cano's combined fiscal year 2009 general and administrative expenses and LOE as a result of the merger, exclusive of share based compensation, transaction, and litigation costs. These reductions in costs include:

- Reduction in redundant overhead;
- Reduction in redundant executive personnel and directors;
- Reduction in redundant third party costs such as accounting and auditing services, legal services, contractor services, and insurance coverage;
- Consolidation of field operating offices;
- Consolidation of IT functions; and
- Reductions in office lease expense.

Resaca Historical Financial Data

Results of Operations

Year Ended June 30, 2009 Compared to Year Ended June 30, 2008

Income. Total income increased $19.5 million for the year ended June 30, 2009 when compared to the year ended June 30, 2008. The increase was primarily attributable to a $23.8 million change in the unrealized value of Resaca's oil and gas hedges from a loss of $12.3 million in the prior year to a gain of $11.5 million in the current fiscal year. This increase was offset by a $4.4 million decrease in oil and

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gas revenues to $14.1 million for the year ended June 30, 2009 due primarily to lower oil and gas prices.

Costs and Expenses. Total costs and expenses decreased $0.7 million to $23 million for the year ended June 30, 2009 when compared to the year ended June 30, 2008. This $0.7 million decrease was primarily attributable to the following:

Lease operating expenses decreased $0.4 million to $6.6 million for the year ended June 30, 2009 due to a reduction in the well maintenance projects performed by Resaca;

Production and ad valorem taxes decreased $0.4 million to $1.3 million for the year ended June 30, 2009 due to the oil and gas revenues;

General and administrative expenses increased $1.0 million to $3.0 million for the year ended June 30, 2009 primarily attributable to the hiring of key personnel and management to support the growth of the business and also higher administrative costs associated with being a public company;

Share-based compensation costs of $4.1 million were recognized in the current year versus zero in the previous year. This expense stems from the award of restricted stock and stock options to key members of management to promote the success of Resaca;

Resaca recognized an inventory writedown of $0.3 million during the year ended June 30, 2009 as the market value of tubular inventory declined significantly at the end of the fiscal year;

Depletion, depreciation, and amortization increased by $0.4 million to $3.4 million for the year ended June 30, 2009 due to a reduced reserve base as a result of lower oil and gas prices at June 30, 2009 versus June 30, 2008; and

Net interest expense declined by $5.8 million to $4.0 million for the year ended June 30, 2009. The decrease was mostly due to a $40.7 million reduction in outstanding debt after Resaca initial public offering in July 2008 that was repaid with proceeds from its initial public offering on the AIM.

Year Ended June 30, 2008 Compared to Year Ended June 30, 2007

Income. Total income decreased $8.4 million for the year ended June 30, 2008 when compared to the year ended June 30, 2007. The decrease was primarily attributable to a $11.4 million decline in the unrealized value of Resaca oil and gas hedges from a loss of $0.9 million in 2007 to a loss of $12.3 million in the 2008 fiscal year. This decrease was offset by a $3.1 million increase in oil and gas revenues to $18.6 million for the year ended June 30, 2008 due primarily to higher oil and gas prices.

Costs and Expenses. Total costs and expenses increased $0.7 million to $23.7 million for the year ended June 30, 2008 when compared to the year ended June 30, 2007. This $0.7 million decrease was primarily attributable to the following:

Lease operating expenses decreased $0.6 million to $7.0 million for the year ended June 30, 2008 due to a reduction in the well maintenance projects performed by Resaca;

Production and ad valorem taxes increased $0.3 million to $1.7 million for the year ended June 30, 2008 due to the increase in oil and gas sales;

General and administrative expenses increased $0.4 million to $2.0 million for the year ended June 30, 2008. The increase was attributable to the hiring of key personnel and management to

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support the growth of the business and also higher administrative costs associated with preparations to become listed on the AIM; and

Net interest expense increased by $0.5 million to $9.8 million in the year ended June 30, 2008. The increase was mostly due increased borrowings in outstanding debt during the year ended June 30, 2008.

Three Months and Nine Months Ended March 31, 2010 Compared to Three Months and Nine Months Ended March 31, 2009

Income: Total income of $4.7 million for the three months ended March 31, 2010 was $3.0 million higher as compared to total income of $1.7 million for the three months ended March 31, 2009. The increase was primarily attributable to a $1.8 million increase in unrealized gain (loss) on Resaca's oil and gas hedges. In addition, there was a $1.2 million increase in oil and gas revenues due primarily to higher oil and gas prices, which increased oil and gas revenues from $2.7 million for the three months ended March 31, 2009 to $3.9 million for the three months ended March 31, 2010.

Total income of $10.3 million for the nine months ended March 31, 2010 was $16.6 million lower as compared to total income of $26.9 million for the nine months ended March 31, 2009. The decrease was primarily attributable to a $16.6 million decrease in unrealized gain (loss) on Resaca's oil and gas hedges.

Costs and Expenses: Total costs and expenses increased $0.1 million from $5.2 million to $5.3 million for the three months ended March 31, 2010 when compared to the three months ended March 31, 2009. This $0.1 million increase was comprised primarily of the following:

Lease operating expenses decreased $0.4 million to $1.3 million for the three months ended March 31, 2010 due to a reduction in the well maintenance projects performed by Resaca and due to cost reduction measures implemented near the end of Resaca's 2009 fiscal year;

Production and ad valorem taxes increased $0.1 million to $0.3 million for the three months ended March 31, 2010 due to the increase in oil and gas revenues; and

General and administrative expenses increased $0.4 million to $0.9 million for the three months ended March 31, 2010. The increase was primarily attributable to transaction costs incurred related to the merger.

Total costs and expenses increased $0.2 million from $16.8 million to $17.0 million for the nine months ended March 31, 2010 when compared to the nine months ended March 31, 2009. This $0.2 million increase was comprised primarily of the following:

Lease operating expenses decreased $0.7 million to $4.6 million for the nine months ended March 31, 2010 due to a reduction in the well maintenance projects performed by Resaca and due to cost reduction measures implemented near the end of Resaca's 2009 fiscal year;

Production and ad valorem taxes decreased $0.2 million to $0.8 million for the nine months ended March 31, 2010 due to a refund of production taxes on exempt wells;

General and administrative expenses increased $0.9 million to $3.0 million for the nine months ended March 31, 2010. The increase was primarily attributable to transaction costs incurred related to the merger;

Share-based compensation costs of $3.3 million were recognized during the nine months ended March 31, 2010 versus $3.0 million recognized during the nine months ended March 31, 2009, resulting in a $0.3 million increase. This expense stems from the award of restricted stock and stock options to key members of management to promote the success of Resaca;

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Depletion, depreciation, and amortization increased by $0.3 million to $2.8 million for the nine months ended March 31, 2010 due to a reduction in proved reserves and the acquisition of workover rigs, reversing units and related assets;

Accretion expense decreased by $0.2 million to $0.1 million for the nine months ended March 31, 2010. The decrease was due to certain fields being fully accreted during 2009; and

Net interest expense decreased by $0.1 million to $2.5 million for the nine months ended March 31, 2010. The decrease was primarily due to a lower interest rate for outstanding debt for the nine months ended March 31, 2010.

Crude Oil and Natural Gas Prices and Derivatives

The average prices Resaca receives for crude oil sales are generally at market prices received at the wellhead, which are generally based on West Texas Sour, which Resaca refers to as WTS, prices and are adjusted for quality and transportation charges. The average prices Resaca receives for natural gas sales are approximately the market price received at the wellhead, which are generally based on Waha Natural Gas Hub, which Resaca refers to as Waha, prices and are adjusted for the value of natural gas liquids, less transportation and marketing expenses. Resaca has commodity derivatives in place that provide for $58.00 to $60.00 WTS crude oil "floor prices" and $5.50 to $6.30 Waha natural gas "floor prices." If WTS crude oil or Waha natural gas prices are lower than the "floor prices," Resaca will be paid by its counterparty for the difference between the WTS or Waha price, as the case may be, and the "floor price." Resaca's derivatives also include $66.30 to $77.00 WTS crude oil "ceiling prices" and $6.10 to $11.50 Waha natural gas "ceiling prices." If WTS crude oil or Waha natural gas prices are higher than the "ceiling prices," Resaca will pay its counterparty for the difference between the WTS or Waha price, as the case may be, and such "ceiling price."

For the 2009 fiscal year, Resaca recorded an unrealized gain on derivatives of $11.5 million as compared to unrealized losses of $12.3 million and $0.9 million for the 2008 and 2007 fiscal years, respectively. For the three months ended March 31, 2010 and 2009, Resaca recorded an unrealized gain of $0.8 million and an unrealized loss of $1.0 million, respectively. For the nine months ended March 31, 2010 and 2009, Resaca recorded an unrealized loss of $0.8 million and an unrealized gain of $15.8 million, respectively.

The unrealized gains for fiscal year 2009 and the three and nine months ended March 31, 2010 reflect the fair value of the commodity derivatives as of June 30, 2009 and March 31, 2010, respectively. By their nature, these commodity derivatives can have a highly volatile impact on our earnings. At June 30, 2009 and March 31, 2010, a five percent change in the prices for Resaca's commodity derivative instruments would have impacted its pre-tax earnings by approximately $1.0 million and $0.9 million, respectively.

Resaca includes realized gains and losses from derivative settlements in oil and gas revenues. Resaca recorded realized losses from derivative settlements of $0.4 million and $3.2 million for fiscal years 2009 and 2008, respectively, and a realized gain of $0.4 million for fiscal year 2007. Resaca recorded a $0.3 million realized loss and a $0.7 million realized gain from derivative settlements for the three months ended March 31, 2010 and 2009, respectively. Resaca recorded a loss of $0.2 million and $0.7 million from derivative settlements for the nine months ended March 31, 2010 and 2009, respectively.

Cash Flow Activity

Year Ended June 30, 2009 Compared to Year Ended June 30, 2008

Operating Activities. Cash flows from operating activities decreased $5.7 from $1.7 for the year ended June 30, 2008 to $(4.0) million for the year ended June 30, 2009. Net income adjusted for non

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cash transactions increased $1.7 million from $(1.6) million in the prior year to $0.1 million in the current period. This increase was offset by a $4.0 million decrease in net working capital.

Investing Activities. Cash flows used in investing activities increased by $16.0 million to $20.5 million for the year ended June 30, 2009 from $4.5 million in the prior year. The increase was primarily due to investments of $20.0 million in Resaca's oil and gas properties.

Financing Activities. Cash flows provided by financing activities increased $22.2 million to $24.6 million for the year ended June 30, 2009 from $2.4 million during the year ended June 30, 2008. The increase was primarily due to $74.9 million in net proceeds from Resaca's initial public offering, offset by $44.3 million and $15.0 million used to paydown Tranche A and Tranche B, respectively, of Resaca's credit facility.

Year Ended June 30, 2008 Compared to Year Ended June 30, 2007

Operating Activities. Cash flows from operating activities increased $4.5 million from $(2.8) million for the year ended June 30, 2007 to $1.7 million for the year ended June 30, 2008. Net income adjusted for non cash transactions increased $2.4 million to $(1.6) million in the current year from $(4.0) million in the prior year. This addition was offset by a $3.3 million increase in net working capital.

Investing Activities. Cash flows used in investing activities decreased by $9.2 million to $4.5 million for the year ended June 30, 2008 from $13.7 million in the prior year. The decrease was primarily due to a reduction in investments of $9.3 million in Resaca's oil and gas properties.

Financing Activities. Cash flows provided by financing activities decreased $13.8 million to $2.4 million for the year ended June 30, 2008. Cash flows provided by financing activities were $16.2 million during the year ended June 30, 2007. The decrease was due to reduced borrowings of $13.8 million on Resaca's credit facility in the 2008 fiscal year.

Nine Months Ended March 31, 2010 Compared to Nine Months Ended March 31, 2009

Operating Activities: Cash flows provided by operating activities increased $5.5 million from $(5.1) million for the nine months ended March 31, 2009 to $0.4 million for the nine months ended March 31, 2010. Net income adjusted for non cash transactions increased $0.2 million from $0.3 million for the nine months ended March 31, 2009 to $0.5 million for the nine months ended March 31, 2010. Working capital decreased by $0.1 million for the nine months ended March 31, 2010 as compared to a $5.4 million decrease for the nine months ended March 31, 2009.

Investing Activities: Cash flows used in investing activities decreased by $16.0 million from $19.2 million for the nine months ended March 31, 2009 to $3.2 million for the nine months ended March 31, 2010. The decrease was primarily due to a reduction of Resaca's investment in its oil and gas properties related to a curtailment of Resaca's infill drilling with respect to the Cooper Jal Properties.

Financing Activities: Cash flows provided by financing activities decreased $22.5 million from $25.6 million for the nine months ended March 31, 2009 to $3.1 million during the nine months ended March 31, 2010. The decrease was primarily due to $74.9 million being provided by Resaca's initial public offering offset by $44.3 million and $15.0 million used to paydown Tranche A and Tranche B, respectively, of Resaca's credit facility in July 2008 offset by proceeds from borrowings on senior debt of $10.0 million.

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Cano Historical Financial Data

Results of Operations

Year Ended June 30, 2009 Compared to Year Ended June 30, 2008

Overall

For the 2009 fiscal year, Cano had income applicable to Cano common stock of $7.9 million, which was a $29.5 million improvement as compared to the $21.6 million loss applicable to Cano common stock for the 2008 fiscal year. Items that led to the improvement were increased gain on derivatives of $75.7 million, Cano preferred stock repurchased for less than the carrying amount of $10.9 million, higher income from discontinued operations of $8.0 million and lower Cano preferred stock dividend of $1.4 million. These positive factors were partially offset by higher operating expenses of $49.7 million, lower operating revenues of $9.2 million, lower deferred income tax benefit of $7.1 million and goodwill impairment of $0.7 million.

Operating Revenues

The table below summarizes Cano's operating revenues for the years ended June 30, 2009 and 2008.

	Year Ended June 30,		Increase (Decrease)
	2009	**2008**	**2009 v. 2008**
Operating Revenues *(In Thousands)*	$ 25,409	$ 34,650	$ (9,241)
Sales:			
Crude Oil (MBbls)	309	249	60
Natural Gas (MMcf)	776	908	(132)
MBOE	438	401	37
Average Realized Price			
Crude Oil ($/Bbl)	$ 62.17	$ 94.08	$ (31.91)
Natural Gas ($/Mcf)	$ 7.57	$ 11.99	$ (4.42)
Operating Revenues and Commodity Derivative Settlements *(In Thousands)*	$ 32,299	$ 32,065	$ 234
Average Adjusted Price (includes Commodity derivative settlements)			
Crude Oil ($/Bbl)	$ 75.84	$ 81.92	$ (6.08)
Natural Gas ($/Mcf)	$ 10.23	$ 12.48	$ (2.25)

The 2009 fiscal year operating revenues of $25.4 million were $9.2 million lower as compared to the 2008 fiscal year operating revenues of $34.7 million. The $9.2 million reduction is primarily attributable to lower prices received for crude oil and natural gas sales, which lowered revenues by $8.0 million and $4.0 million, respectively, and by lower natural gas sales volumes, which lowered revenues by $1.0 million. These decreases were partially offset by increased crude oil sales volumes, which increased revenues by $3.7 million.

The impact of lower prices for crude oil and natural gas sales, as discussed above, is partially mitigated by commodity derivative settlements received during the 2009 fiscal year as presented in the preceding table. As discussed in Note 7 to Cano's Consolidated Financial Statements, if crude oil and natural gas NYMEX prices are lower than derivative floor prices, Cano will be reimbursed by our counterparty for the difference between the NYMEX price and floor price (i.e. realized gain). Conversely, if crude oil and natural gas NYMEX prices are higher than the derivative ceiling prices, Cano will pay its counterparty for the difference between the NYMEX price and ceiling price (i.e. realized loss).

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Crude Oil Sales. For the 2009 fiscal year, approximately 82% of the increased crude oil sales of 60 MBbls were attributed to development activity at the Cato Properties. Also, Cano had increased crude oil sales from the Panhandle Properties due to development activity.

Natural Gas Sales. For the 2009 fiscal year, the overall decrease in natural gas sales of 132 MMcf pertains primarily to reductions with respect to Cano's Barnett Shale project at our Desdemona Properties. During the first half of calendar year 2008, various workovers and re-fracture stimulations were attempted to increase production. Through December 2008, these efforts were met with marginal success. In January 2009, Cano halted its workover program in the Desdemona Properties Barnett Shale. Once the workover activity ceased, Cano experienced normal Barnett Shale annual production declines of approximately 65-90%. In July 2009, Cano shut-in its Barnett Shale natural gas wells and, based upon the current and near-term outlook of natural gas prices, Cano has no plans to return these wells to production in the foreseeable future.

Also, higher gas production from the Cato Properties due to the aforementioned development activity was offset by lower gas production from Cano's Panhandle Properties due to normal field decline of approximately 10% annually and temporary pipeline curtailments of gas deliveries by its gas purchasers.

Crude Oil and Natural Gas Prices. The average price Cano receives for crude oil sales is generally at market prices received at the wellhead, except for the Cato Properties, for which Cano receives below market prices due to the levels of impurities in the oil. Differentials gapped briefly as commodity prices rapidly declined between July 2008 and December 2008; however, the differentials have since recovered with the higher crude oil prices. The average price Cano receives for natural gas sales is approximately the market price received at the wellhead, adjusted for the value of natural gas liquids, less transportation and marketing expenses. As discussed in Note 7 to Cano's Consolidated Financial Statements, Cano has commodity derivatives in place that provide for $80.00 to $85.00 crude oil "floor prices" and $7.75 to $8.00 natural gas "floor prices." If crude oil and natural gas NYMEX prices are lower than the "floor prices," Cano will be reimbursed by its counterparty for the difference between the NYMEX price and such "floor price."

Operating Expenses

For the 2009 fiscal year, Cano's total operating expenses were $84.4 million, or $49.7 million higher than the 2008 fiscal year of $34.7 million. The primary contributors to the increase were an impairment of long-lived assets of $26.7 million and exploration expense of $11.4 million associated with the Desdemona Properties Duke Sands waterflood project. In addition, Cano experienced increased lease operating expenses of $5.6 million, general and administrative of $4.3 million and higher depletion and depreciation of $1.8 million.

Lease Operating Expenses

Cano's LOE consists of the costs of producing crude oil and natural gas such as labor, supplies, repairs, maintenance, workovers and utilities.

For the 2009 fiscal year, our LOE was $18.8 million, which is $5.5 million higher than 2008 fiscal year of $13.3 million. The $5.5 million increase resulted primarily from increased workover activities and general repairs at the Panhandle Properties of $4.2 million and higher operating expenses incurred at the Cato Properties of $2.1 million to support increased crude oil and natural gas sales, as discussed under " Operating Revenues," partially offset by lower operating expenses of $1.1 million due to lower natural gas sales at the Desdemona Properties, as discussed under " Operating Revenues." Cano also had higher LOE at the Davenport and Nowata Properties of $0.3 million due to increased electricity expenses, general repairs and workover expenses. The workover activities at the Panhandle

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Properties pertained to returning wells to production and have increased production, as discussed under " Operating Revenues," and are expected to result in increased production in future months.

For the 2009 fiscal year, our LOE per BOE, based on production, was $41.28 as compared to $32.69 for the 2008 fiscal year. In general, secondary and tertiary LOE is higher than the LOE for companies developing primary production because Cano's fields are more mature and typically produce less oil and more water. Cano expects the LOE to decrease during the 2010 fiscal year as Cano realizes the benefit of a full year of lower service rates with vendors, and Cano expects LOE per BOE to decrease as production increases from the waterflood and EOR development activities Cano has implemented and are implementing. Cano did experience decreases in our LOE per BOE during the 2009 fiscal year as the LOE per BOE for the six months ended June 30, 2009 was $37.75, which is lower than the $44.84 LOE per BOE for the six months ended December 31, 2008.

For the 2008 fiscal year, Cano's LOE was $13.3 million, which is $4.6 million higher as compared to the 2007 fiscal year LOE of $8.7 million. Cano incurred higher LOE due to the inclusion of the Cato Properties of $0.8 million, increased lifting costs at the Desdemona Properties of $1.7 million, increased workover rig expenses at the Panhandle and Pantwist Properties of $1.6 million and increased electricity expense of $0.7 million. Other factors contributing to higher LOE were increased crude oil and natural gas sales, as discussed under " Operating Revenues," and generally higher costs for goods and services. Our LOE for the 2008 fiscal year included a full year of Cato Properties' operating results versus three months in the 2007 fiscal year. Our LOE per BOE has increased from $23.47 during the 2007 fiscal year to $32.69 for the 2008 fiscal year, for the reasons previously discussed.

Production and Ad Valorem Taxes

For the 2009 fiscal year, Cano's production and ad valorem taxes were $2.4 million, which is $0.1 million lower than the 2008 fiscal year of $2.5 million. Cano's production taxes were lower by $0.6 million due to lower operating revenues and were partially offset by increased ad valorem taxes of $0.5 million. The increased ad valorem taxes were due to notification of revisions in tax property valuations by taxing authorities for the 2008 calendar year. Therefore, the 2009 fiscal year includes higher tax rates for the twelve months plus a charge for applying the rates to the first six months of the 2008 calendar year. Cano's production taxes as a percent of operating revenues for the 2009 fiscal year of 6.5% was comparable to the 2008 fiscal years of 6.7%. Cano anticipates the 2010 fiscal year to be subject to similar production tax rates.

For the 2008 fiscal year, Cano's production and ad valorem taxes were $2.5 million, which is $0.8 million higher than the 2007 fiscal year of $1.7 million. The $0.8 million increase is attributable to higher operating revenues, as previously discussed.

General and Administrative Expenses

Cano's general and administrative, which it refers to as G&A, expenses consist of support services for its operating activities and investor relations costs.

For the 2009 fiscal year, Cano's G&A expenses totaled $19.2 million, which is $4.3 million higher than fiscal year 2008 of $14.9 million. The primary contributors to the $4.3 million increase were higher litigation costs of $4.4 million pertaining to the settlement costs and legal fees pertaining of the fire litigation as discussed in Note 17 to Cano's Consolidated Financial Statements and increased stock compensation expense of $0.2 million partially offset by reduced payroll expense of $0.3 million. During the quarter ended March 31, 2009, Cano took steps to reduce its payroll, eliminating 25% of its home office staff. The quarter ended June 30, 2009 was the first time Cano realized these savings.

Since Cano has settled all fire litigation claims except for one lawsuit, as discussed in Note 17 to Cano's Consolidated Financial Statements, Cano expects significant decreases in future quarters' legal expenses. Also, the previously discussed workforce reductions are expected to reduce payroll and benefits costs by $0.8 million annually.

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Impairment of Long-Lived Assets

During the 2009 fiscal year, Cano recorded a $26.7 million impairment on its Barnett Shale Properties. As discussed in Note 14 to Cano's Consolidated Financial Statements, the decline in commodity prices created an uncertainty in the likelihood of developing its reserves associated with Cano's Barnett Shale natural gas properties within the next five years. Therefore, during the quarter ended December 31, 2008, Cano recorded a $22.4 million pre-tax impairment to its Barnett Shale Properties. During the quarter ended June 30, 2009, Cano recorded an additional $4.3 million pre-tax impairment to its Barnett Shale Properties as the forward outlook for natural gas prices continued to decline and Cano shut-in its Barnett Shale natural gas wells. The fair value was determined using estimates of future production volumes, prices and operating expenses, discounted to a present value.

Exploration Expense

During the 2009 fiscal year, Cano recorded exploration expense of $11.4 million pertaining to the Duke Sands waterflood project. The primary source of water for this waterflood project had been derived from its Barnett Shale wells. Since Cano has shut-in its Barnett Shale natural gas production due to uneconomic natural gas commodity prices, as previously discussed, Cano no longer has an economic source of water to continue flooding the Duke Sands. Therefore, its rate of water injection has been reduced to a point where Cano cannot consider the waterflood active. Cano continues to believe that this reservoir is an excellent secondary and tertiary recovery candidate; however, Cano does not have current plans to recommence injection for the foreseeable future.

Depletion and Depreciation

For the 2009 fiscal year, Cano's depletion and depreciation expense was $5.7 million, an increase of $1.8 million as compared to the 2008 fiscal year depletion and depreciation expense of $3.9 million. This includes depletion expense pertaining to Cano's oil and natural gas properties, and depreciation expense pertaining to Cano's field operations vehicles and equipment, natural gas plant, office furniture and computers. The increase is due to increased crude oil and natural gas sales volumes (net) as previously discussed under " Operating Revenues" and higher per BOE depletion rates. For the 2009 fiscal year, Cano's depletion rate pertaining to its oil and gas properties was $11.85 per BOE, as compared to the 2008 fiscal year rate of $8.90 per BOE. The increased depletion rates resulted from higher depletion rates for Cano's Cato and Panhandle Properties based on our reserve redetermination at June 30, 2009 and periodic reassessments of depletion rates during the 2009 fiscal year.

Interest Expense and Other

For the 2009 and 2008 fiscal years, Cano incurred interest expense of $0.5 million and $0.8 million, as a direct result of the credit agreements Cano entered into, as discussed in Note 6 to Cano's Consolidated Financial Statements. The interest expense for the 2009 and 2008 fiscal years was reduced by $1.4 million and $2.5 million, for interest cost that was capitalized to the waterflood and ASP projects. Cano incurred higher interest costs during the 2008 fiscal year due to higher outstanding debt balances and higher interest rates.

Gain (Loss) on Commodity Derivatives

As discussed in Note 7 to Cano's Consolidated Financial Statements, Cano has entered into financial contracts for its commodity derivatives and an interest rate swap arrangement. For the 2009 fiscal year, Cano recorded a gain on derivatives of $43.8 million as compared to losses of $32.0 million and $0.8 million for the 2008 and 2007 fiscal years, respectively. The 2009 fiscal year gain consisted of an unrealized gain of $36.9 million, a realized gain on settlements of commodity derivative contracts of $6.2 million and a $0.7 million realized gain on the sale of floor-priced contracts.

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For the realization of settlements, if crude oil and natural gas NYMEX prices are lower than the floor prices, Cano will be reimbursed by its counterparty for the difference between the NYMEX price and floor price (i.e. realized gain). Conversely, if crude oil and natural gas NYMEX prices are higher than the ceiling prices, Cano will pay its counterparty for the difference between the NYMEX price and such ceiling price (i.e. realized loss).

The unrealized gain for the 2009 fiscal year reflects the fair value of the commodity derivatives as of June 30, 2009. By their nature, these commodity derivatives can have a highly volatile impact on Cano's earnings. A five percent change in the prices for its commodity derivative instruments could impact our pre-tax earnings by approximately $1.8 million.

Income Tax Benefit (Expense)

For the 2009 fiscal year, Cano had income tax expense of $1.7 million, as compared to an income tax benefit for the 2008 fiscal year of $9.8 million. These tax amounts included taxes related to discontinued operations as shown in Note 8 to Cano's Consolidated Financial Statements. The increased income taxes for the 2009 fiscal year, as compared to the 2008 fiscal year, is due to the increase in taxable income and an increase in the state tax rate and other permanent items, as presented in Note 16 to Cano's Consolidated Financial Statements, resulting in an aggregate rate of 107.4%. The income tax rates for the 2008 fiscal year was 35.9% for such year.

Income from Discontinued Operations

For the 2009 and 2008 fiscal years, Cano had income from discontinued operations of $11.5 million and $3.5 million, respectively, due to its divestitures of Pantwist, LLC, the Corsicana Properties and the Rich Valley Properties, as discussed in Note 8 to Cano's Consolidated Financial Statements.

Cano Preferred Stock Dividend

The Cano preferred stock dividend for the 2009 fiscal year of $2.7 million was a decrease of $1.4 million from $4.1 million for 2008 fiscal year. This resulted from the November and December 2008 repurchases of Cano preferred stock as discussed in Note 5 to Cano's Consolidated Financial Statements. Due to the repurchases, Cano's quarterly preferred stock dividends will be approximately $0.5 million per quarter of which 59% will be paid in the form of additional Cano preferred stock, with the remaining balance paid in cash. Also, the 2008 fiscal year amount includes $0.5 million of federal tax Cano was required to withhold in accordance with Internal Revenue Service regulations from September 2006 through June 2008. These amounts did not have a material effect to its prior period financial statements. Due to the previously discussed repurchases, Cano no longer has any Cano preferred stock that required withholding taxes.

Year Ended June 30, 2008 Compared to Year Ended June 30, 2007

For the 2008 fiscal year, Cano had a loss applicable to Cano common stock of $21.6 million, which was $17.6 million greater than the $4.0 million loss applicable to Cano common stock incurred for the year ended June 30, 2007. Increased revenues of $14.0 million, increased deferred tax benefit of $8.8 million and lower interest expense of $0.9 million were more than offset by higher loss on commodity derivatives of $31.1 million, higher operating expenses of $8.3 million, lower income from discontinued operations of $1.0 million and increased Cano preferred stock dividend of $0.9 million.

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Operating Revenues

The table below summarizes Cano's operating revenues for the years ended June 30, 2008, and 2007.

	Year Ended June 30, 2008	Year Ended June 30, 2007	Increase (Decrease) 2008 v. 2007
Operating Revenues *(In Thousands)*	$ 34,650	$ 20,651	$ 13,999
Sales:			
Crude Oil (MBbls)	249	223	26
Natural Gas (MMcf)	908	824	84
MBOE	401	360	41
Average Realized Price			
Crude Oil ($/Bbl)	$ 94.08	$ 61.96	$ 32.12
Natural Gas ($/Mcf)	$ 11.99	$ 8.29	$ 3.70
Operating Revenues and Commodity Derivative Settlements *(In Thousands)*	$ 32,065	$ 21,614	$ 10,451
Average Adjusted Price (includes Commodity derivative settlements)			
Crude Oil ($/Bbl)	$ 81.92	$ 62.17	$ 19.75
Natural Gas ($/Mcf)	$ 12.48	$ 9.41	$ 3.07

The 2008 fiscal year operating revenues of $34.7 million represent an improvement of $14.0 million as compared to the 2007 fiscal year operating revenues of $20.7 million. The $14.0 million improvement is primarily attributable to:

- Higher realized prices received for crude oil and natural gas sales, as shown in the above table, which led to increases of $8.0 million and $3.3 million, respectively, and

- A full twelve months of Cato Properties operating revenues versus three months in 2007 fiscal year which contributed an additional $3.2 million to operating revenues.

Operating Expenses

For the 2008 fiscal year, Cano's total operating expenses were $34.7 million, or $8.3 million higher than the 2007 fiscal year of $26.4 million. The $8.3 million increase is primarily attributed to increased lease operating expenses of $4.6 million, higher general and administrative expenses of $2.2 million, higher production and ad valorem taxes of $0.8 million and increased depletion and depreciation expense of $0.7 million.

General and Administrative Expenses

For the 2008 fiscal year, Cano's G&A expenses totaled $14.9 million, which is $2.3 million higher than fiscal year 2007 of $12.6 million. The primary contributors to the $2.3 million increase were:

- Increased stock compensation expense of $2.1 million resulting from the issuance of stock options as discussed in Note 10 to Cano's Consolidated Financial Statements and the issuance of restricted shares as discussed in Note 11 to Cano's Consolidated Financial Statements,

- Increased labor and staffing costs of $0.3 million, which includes the accrual of bonuses earned during the 2008 fiscal year and the payment of bonuses during the quarter ended December 31, 2007, and

- Higher legal fees of $0.3 million pertaining to the fire litigation as discussed in Note 17 to Cano's Consolidated Financial Statements.

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These increases were partially offset by lower fees of $0.3 million for accounting services to achieve full compliance with Section 404 of the Sarbanes-Oxley Act and reductions totaling $0.1 million pertaining to other expenses.

Depletion and Depreciation

For the 2008 fiscal year, Cano's depletion and depreciation expense was $3.9 million, an increase of $0.7 million as compared to the 2007 fiscal year depletion and depreciation expense of $3.2 million. This includes depletion expense pertaining to Cano's oil and natural gas properties, and depreciation expense pertaining to its field operations vehicles and equipment, natural gas plant, office furniture and computers. The increase is due to increased crude oil and natural gas sales volumes as previously discussed under " Operating Revenues" and higher per BOE depletion rates. For the 2008 fiscal year, Cano's depletion rate pertaining to its oil and gas properties was $8.19 per BOE, as compared to 2007 fiscal year rate of $6.91 per BOE. The higher depletion rates resulted from a reduction of reserves for the Desdemona Barnett Shale and Pantwist Properties, as discussed in Note 18 to Cano's Consolidated Financial Statements, and higher depletion rates attributed to the Cato Properties.

Interest Expense and Other

For the 2008 and 2007 fiscal years, Cano incurred interest expense of $0.8 million and $1.7 million, respectively, as a direct result of the credit agreements Cano entered into, as discussed in Note 6 to Cano's Consolidated Financial Statements. The interest expense for the 2008 and 2007 fiscal years was reduced by $2.5 million and $0.3 million, respectively, for interest cost that was capitalized to the waterflood and ASP projects. Cano incurred higher interest costs during the 2008 fiscal year due to higher outstanding debt balances and higher interest rates.

Gain (Loss) on Commodity Derivatives

The 2008 fiscal year loss consists of unrealized and realized losses of $29.4 million and $2.6 million, respectively. For the 2007 fiscal year, Cano incurred an unrealized loss of $1.8 million and a realized gain of $1.0 million.

Income Tax Benefit (Expense)

For the 2008 fiscal year, Cano had income tax expense of $9.8 million, as compared to an income tax benefit for the 2007 fiscal year of $0.4 million. These tax amounts included taxes related to discontinued operations as shown in Note 8 to Cano's Consolidated Financial Statements. The increased income taxes for the 2008 fiscal year, as compared to the 2007 fiscal year, is due to the increase in taxable income and an increase in the state tax rate and other permanent items, as presented in Note 16 to Cano's Consolidated Financial Statements, resulting in an aggregate rate of 35.9%. The income tax rates for the 2007 fiscal year was 35.3% for such year.

Income from Discontinued Operations

For the 2008 and 2007 fiscal years, Cano had income from discontinued operations of $3.5 million and $4.5 million, respectively, due to its divestitures of Pantwist, LLC, the Corsicana Properties and the Rich Valley Properties, as discussed in Note 8 to Cano's Consolidated Financial Statements.

Cano Preferred Stock Dividend

The Cano preferred stock dividend for the 2008 fiscal year of $4.1 million was $0.9 million higher than the $3.2 million for the 2007 fiscal year. This is primarily due to $0.5 million federal tax withholding previously discussed.

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Three and Nine Months Ended March 31, 2010 Compared to Three and Nine Months Ended March 31, 2009

For the three months ended March 31, 2010, Cano had a loss applicable to common stock of $0.2 million, which was an improvement of $1.0 million as compared to the three months ended March 31, 2009 of a $1.2 million loss applicable to common stock. The $1.0 million earnings improvement primarily related to higher operating revenues of $2.2 million and increased income from discontinued operations of $1.6 million, partially offset by reduced gain on derivatives of $2.7 million.

For the nine months ended March 31, 2010, Cano had a loss applicable to common stock of $13.1 million, which was a $37.4 million decrease as compared to the $24.3 million income applicable to common stock incurred for the nine months ended March 31, 2009. Items contributing to the $37.4 million earnings decrease were reduced gain on derivatives of $52.9 million, lower income from discontinued operations of $10.0 million, decreased income from the preferred stock repurchased for less than the carrying amount of $10.9 million and lower operating revenues of $1.7 million. Partially offsetting the earnings decrease were lower operating expenses of $27.0 million, which is primarily attributable to a $22.4 million charge for impairment of long-lived assets during the nine months ended March 31, 2009.

These items will be addressed in the following discussion.

Operating Revenues

The table below summarizes Cano's operating revenues for the three- and nine-month periods ended March 31, 2010 and 2009.

	Three months ended March 31,		Increase	Nine months ended March 31,		Increase
	2010	2009	(Decrease)	2010	2009	(Decrease)
Operating Revenues *(in thousands)*	$ 5,803	$ 3,606	$ 2,197	$ 16,368	$ 18,119	$ (1,751)
Sales Volumes						
Crude Oil (MBbls)	68	78	(10)	208	220	(12)
Natural Gas (MMcf)	90	124	(34)	324	398	(74)
Total (MBOE)	83	99	(16)	262	286	(24)
Average Realized Price						
Crude Oil ($/ Bbl)	$ 72.62	$ 35.40	$ 37.22	$ 67.56	$ 65.97	$ 1.59
Natural Gas ($/ Mcf)	$ 9.70	$ 5.41	$ 4.29	$ 7.17	$ 8.26	$ (1.09)
Operating Revenues and Commodity Derivative Settlements *(in thousands)*	$ 6,556	$ 6,452	$ 104	$ 20,167	$ 22,126	$ (1,959)
Average Adjusted Price (includes commodity derivative settlements)						
Crude Oil ($/ Bbl)	$ 75.32	$ 62.32	$ 13.00	$ 73.48	$ 79.71	$ (6.23)
Natural Gas ($/Mcf)	$ 15.99	$ 11.26	$ 4.73	$ 15.09	$ 10.74	$ 4.35

The three months ended March 31, 2010 operating revenues of $5.8 million are $2.2 million higher as compared to the three months ended March 31, 2009 of $3.6 million. The $2.2 million increase is primarily attributable to higher average prices received for crude oil and natural gas sales of $2.5 million and $0.4 million, respectively, partially offset by lower crude oil and natural gas sales volumes which combined to reduce revenues by $0.6 million.

The nine months ended March 31, 2010 operating revenues of $16.4 million are $1.7 million lower as compared to the nine months ended March 31, 2009 of $18.1 million. The $1.7 million decrease is primarily attributable to lower crude oil and natural gas sales volumes which reduced revenues by $0.8 million and $0.6 million, respectively, and lower average prices received for natural gas sales of $0.4 million and lower other revenue of $0.3 million. Partially offsetting these revenue decreases were higher prices received for crude oil sales of $0.3 million.

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The average prices Cano received for its crude oil and natural gas sales are supplemented by commodity derivative settlements received for the three- and nine month-periods ending March 31, 2010 and 2009, as presented in the preceding table. If crude oil and natural gas NYMEX prices are lower than derivative floor prices, Cano will be reimbursed by its counterparty for the difference between the NYMEX price and floor price (i.e. realized gain). Conversely, if crude oil and natural gas NYMEX prices are higher than the derivative ceiling prices, Cano will pay its counterparty for the difference between the NYMEX price and ceiling price (i.e. realized loss).

Crude Oil Sales Volumes. For the three months ended March 31, 2010, Cano's crude oil sales were 10 MBbls lower as compared to the three months ended March 31, 2009. This resulted from lower sales from the Cato Properties of 6 MBbls and from the Panhandle Properties of 4 MBbls due to severe weather during January and February 2010 which temporarily curtailed production. The sales decrease at the Cato Properties resulted from the reduction of injected water and redistribution of water injection at the waterflood which resulted in lower production, as discussed under " Drilling Capital Development and Operating Activities Update."

For the nine months ended March 31, 2010, Cano's crude oil sales were 12 MBbls lower as compared to the nine months ended March 31, 2009 due to the reasons previously discussed and lower sales from the Panhandle Properties due to temporary shut-in production at the Cockrell Ranch waterflood resulting from the controlled injection project surveillance, as previously discussed under the " Drilling Capital Development and Operating Activities Update." All Cockrell Ranch production that had been shut-in for the controlled injection project was restored on September 28, 2009.

Natural Gas Sales Volumes. For the three months ended March 31, 2010, Cano's natural gas sales were 34 MMcf lower as compared to the three months ended March 31, 2009 primarily due to reduced sales at the Cato Properties of 21 MMcf, the Panhandle Properties of 8 MMcf and the Desdemona Properties of 7 MMcf. The sales reduction at the Cato Properties occurred as the natural gas purchaser temporarily declined to take the natural gas production for most of the three months ended March 31, 2010. Gas sales resumed at the Cato Properties in mid-March 2010. The lower natural gas sales at the Panhandle Properties resulted from the severe weather, as previously discussed. Lower sales at the Desdemona Properties resulted as the gas plant was temporarily shut-in to equip the plant to handle increased natural gas production from the return to production of 25 shut-in gas wells as previously discussed under the " Drilling Capital Development and Operating Activities Update."

For the nine months ended March 31, 2010, Cano's natural gas sales were 74 MMcf lower as compared to the nine months ended March 31, 2009 primarily due to lower sales at the Desdemona Properties of 30 MMcf, Panhandle Properties of 24 MMcf and Cato Properties of 17 MMcf. Lower natural gas sales at the Desdemona Properties resulted from the shut-in natural gas production from Cano's Barnett Shale wells during July 2009, based upon the current and near-term outlook of natural gas prices and the reactivation of its gas plant, as previously discussed. Lower natural gas sales at the Panhandle Properties resulted from severe weather and from the controlled production project at Cockrell Ranch waterflood, as previously discussed, and one of Cano's gas purchasers experienced an unplanned plant outage from mid-August 2009 through the end of September 2009, which resulted in reduced natural gas and NGL sales. Lower natural gas sales at the Cato Properties resulted from the purchaser temporarily declining to take natural gas production, as previously discussed.

Crude Oil and Natural Gas Prices. The average price Cano receives for crude oil sales is generally at market prices received at the wellhead, except for the Cato Properties, for which it receives below market prices due to the level of impurities in the oil. The average price Cano receives for natural gas sales is approximately the market price received at the wellhead, adjusted for the value of natural gas liquids, less transportation and marketing expenses. As previously discussed, Cano has commodity derivatives in place that mitigate future price risk.

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Cano expects to grow sales through its development plans as previously discussed under " Development Capital Expenditures and Operating Activities Update."

Operating Expenses

For the three months ended March 31, 2010, Cano's total operating expenses were $8.2 million, which approximated the three months ended March 31, 2009 of $8.1 million. Lower lease operating expenses of $0.4 million and lower depletion and depreciation expense of $0.4 million were offset by increased general and administrative of $0.8 million and increased production taxes of $0.1 million.

For the nine months ended March 31, 2010, Cano's total operating expenses were $31.6 million, which is a decrease of $27.0 million as compared to the nine months ended March 31, 2009 of $58.7 million. The nine months ended March 31, 2009 included an impairment of long-lived assets of $22.4 million, which is the primary reason for the overall decrease. In addition, Cano had reduced general and administrative of $7.2 million, lower lease operating expenses of $1.9 million and lower depletion and depreciation expense of $0.5 million, partially offset by the exploration expense of $5.0 million recorded during the nine months ended March 31, 2010.

Lease Operating Expenses

Cano's LOE consist of the costs of producing crude oil and natural gas such as labor, supplies, repairs, maintenance, workovers and utilities.

For the three months ended March 31, 2010, Cano's LOE was $3.6 million, which is $0.4 million lower than the three months ended March 31, 2009 of $4.0 million. The LOE decrease for the three months ended March 31, 2010 of $0.4 million resulted primarily from reduced service rates negotiated with the vendors of $0.3 million, lower electricity expense of $0.1 million and the shut-in of Cano's Barnett Shale natural gas wells, as previously discussed under "Operating Revenues," which reduced LOE by $0.1 million. Partially offsetting these LOE cost reductions were increased LOE at the Cato Properties of $0.1 million to support increased focus on production activities.

For the nine months ended March 31, 2010, Cano's LOE was $11.8 million, which is $1.9 million lower than the nine months ended March 31, 2009 of $13.7 million. The LOE decreases for the nine months ended March 31, 2010 of $1.9 million resulted primarily from reduced service rates negotiated with vendors of $1.2 million, lower electricity expense of $0.8 million and the shut-in of Cano's Barnett Shale natural gas wells which reduced LOE by $0.5 million. Partially offsetting these LOE cost reductions were increased LOE at the Cato Properties $0.6 million to support increased focus on production activities.

For the three months ended March 31, 2010, Cano's LOE per BOE, based on production, was $36.88, which is an improvement of $1.22 as compared to $38.10 for the three months ended March 31, 2009. For the nine months ended March 31, 2010, Cano's LOE per BOE, based on production, was $39.80, which is an improvement of $5.27 as compared to $45.07 for the nine months ended March 31, 2009. In general, secondary and tertiary LOE is higher than LOE for companies developing primary production because Cano's fields are more mature and typically produce less oil and more water. Cano expects LOE to decrease during the 2010 fiscal year as it realize the continued benefit of lower service rates negotiated with vendors, and expects LOE per BOE to decrease as production increases from the waterflood and EOR development activities it has implemented and are implementing as discussed under the " Drilling Capital Development and Operating Activities Update."

Production and Ad Valorem Taxes

For the three months ended March 31, 2010, Cano's production and ad valorem taxes were $0.5 million, which is $0.2 million higher than the three months ended March 31, 2009 of $0.3 million. The $0.2 million increase resulted from higher production taxes from increased operating revenue.

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Cano's production taxes as a percent of operating revenues for the three months ended March 31, 2010 were 6.4% as compared to the three months ended March 31, 2009 of 5.5%.

For the nine months ended March 31, 2010, Cano's production and ad valorem taxes were $1.4 million, which is $0.3 million lower than the nine months ended March 31, 2009 of $1.7 million. The $0.3 million decrease resulted from lower production taxes of $0.1 million due to lower operating revenues and reduced ad valorem taxes of $0.2 million due to lower property tax valuations by taxing authorities for the 2009 calendar year. Cano's production taxes as a percent of operating revenues for the nine months ended March 31, 2010 of 6.4% was comparable to the nine months ended March 31, 2009 of 6.5%.

General and Administrative Expenses

Cano's general and administrative, which it refers to as G&A expenses, consist of support services for its operating activities and investor relations costs.

For the three months ended March 31, 2010, Cano's G&A expenses totaled $2.9 million, which is $0.7 million higher than the three months ended March 31, 2009 of $2.2 million. The $0.7 million increase resulted from higher legal costs of $1.1 million partially offset by lower stock-based compensation costs of $0.4 million. The $1.1 million increase in legal expenses is due to the three months ended March 31, 2010 including $0.3 million of costs pertaining to litigation and merger-related activities and the three months ended March 31, 2009 included a settlement received from the former owners of the Panhandle Properties pertaining to the fire litigation. The lower stock-based compensation costs are directly related to reduced issuances of stock options and restricted stock.

For the nine months ended March 31, 2010, Cano's G&A expenses totaled $9.4 million, which is $7.2 million lower than the nine months ended March 31, 2009 of $16.6 million. The $7.2 million expense reduction resulted primarily from reduced litigation costs of $6.4 million, reduced stock-based compensation costs of $1.4 million, and lower payroll and benefits costs of $0.6 million. Partially offsetting these expense reductions were increased costs related to the merger of $1.7 million. The reduced payroll and benefits costs resulted from workforce reductions that Cano implemented during the quarter ended March 31, 2009, which eliminated 25% of its home office staff. The lower stock-based compensation was previously discussed. The litigation cost reduction occurred as Cano settled all but one of its fire litigation claims during the fiscal year ended June 30, 2009. Cano expects continued decreases in future quarters' legal expenses after Cano close the proposed merger with Resaca.

Exploration Expense

During the nine months ended March 31, 2010, Cano recorded exploration expense of $5.0 million pertaining to the Nowata Alkaline-Surfactant-Polymer, which we refer to as the Nowata ASP Project. During December 2009, Cano finalized its performance analysis, which indicated the Nowata ASP Project did not result in increased oil production of significant quantities to be considered economically viable that would justify the recognition of proved reserves. Accordingly, at December 31, 2009, Cano recorded a $5.0 million pre-tax exploration expense.

Impairment of Long-Lived Assets and Goodwill

During the quarter ended December 31, 2009, Cano wrote down $0.3 million of costs associated with the ASP facility used for the Nowata ASP Project. The facility's water filtering process did not work properly with the oil-water fluid production at the Nowata Properties. Cano intends to use the ASP facility for future pilot tertiary projects at its Cato and Panhandle Properties.

During the quarter ended December 31, 2008, Cano recorded a $22.4 million pre-tax impairment to its Barnett Shale Properties and a $0.7 million pre-tax impairment to the goodwill associated with its subsidiary which holds the equity in its Barnett Shale Properties. Cano recorded the impairments due

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to the decline in commodity prices which created an uncertainty in the likelihood of developing reserves associated with its Barnett Shale Properties within the next five years.

Depletion and Depreciation

For the three months ended March 31, 2010, Cano's depletion and depreciation expense was $1.1 million, which is $0.5 million lower as compared to $1.6 million for the three months ended March 31, 2009. For the nine months ended March 31, 2010, Cano's depletion and depreciation expense was $3.6 million, which is $0.5 million lower as compared to $4.1 million for the nine months ended March 31, 2009. This includes depletion expense pertaining to Cano's oil and natural gas properties, and depreciation expense pertaining to its field operations vehicles and equipment, natural gas plant, office furniture and computers. The decrease is primarily due to lower crude oil and natural gas sales volumes (net) as previously discussed under " Operating Revenues." For the three months ended March 31, 2010 and nine months ended March 31, 2010, Cano's depletion rate pertaining to its oil and gas properties was $10.60 per BOE and $11.20 per BOE, respectively. For the three months ended March 31, 2009 and nine months ended March 31, 2009, Cano's depletion rate pertaining to its oil and gas properties was $13.34 per BOE and $12.57 per BOE, respectively.

Interest Expense and Other

For the three months ended March 31, 2010 and 2009, Cano incurred interest expense of $0.5 million and $0.1 million, respectively. For the nine months ended March 31, 2010 and 2009, Cano incurred interest expense of $0.9 million and $0.4 million, respectively. Cano's interest expense is a direct result of the credit agreements it entered into. The interest expense for the three months ended March 31, 2010 and 2009 was reduced by $0.5 million and $0.3 million, respectively, for interest cost that was capitalized to the waterflood projects discussed under " Development Capital Expenditures and Operating Activities Update." The interest expense for the nine months ended March 31, 2010 and 2009 was reduced by $1.5 million and $0.9 million, respectively, for the same reason. Cano incurred higher interest costs during the three and nine months ended March 31, 2010 due to higher outstanding debt balances. The interest rates under Cano's credit agreements for the three and nine months ended March 31, 2010 were comparable to the interest rates it incurred for the three and nine months ended March 31, 2009.

Gain (Loss) on Derivatives

Cano has entered into financial derivatives contracts for its commodity sales and interest expense. For the three months ended March 31, 2010, Cano recorded a gain on derivatives of $0.8 million as compared to a gain of $3.5 million for the three months ended March 31, 2009. The three months ended March 31, 2010 gain of $0.8 million consisted of an unrealized gain of $0.1 million and a realized gain on settlements of derivative contracts of $0.7 million.

For the nine months ended March 31, 2010, Cano recorded a loss on derivatives of $4.5 million as compared to a gain of $48.5 million for the nine months ended March 31, 2009. The nine months ended March 31, 2010 loss on derivatives of $4.5 million consisted of an unrealized loss of $8.1 million and a realized gain on settlements of derivative contracts of $3.6 million.

The realized gain primarily pertains to the realization of commodity settlements, as crude oil and natural gas NYMEX prices were lower than the floor prices.

The unrealized gain and loss for the three months ended March 31, 2010 and nine months, respectively, reflects the fair value of the commodity derivatives as of March 31, 2010 as compared to December 31, 2009 and June 30, 2009, respectively. By their nature, these commodity derivatives can have a highly volatile impact on Cano's earnings. A ten percent change in the prices for Cano's commodity derivative instruments could impact its pre-tax earnings by approximately $35,000.

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Income Tax Benefit (Expense)

For the three months ended March 31, 2010, Cano had income tax benefit of $0.6 million, as compared to an income tax benefit for the three months ended March 31, 2009 of $0.4 million. For the nine months ended March 31, 2010, Cano had an income tax benefit of $6.8 million, as compared to income tax expense for the nine months ended March 31, 2009 of $3.3 million. The effective income tax rates for the three months ended March 31, 2010 and nine months ended March 31, 2010 were 28.2% and 33.0%, respectively. The effective income tax rates for the three and nine months ended March 31, 2009 were 30.4% and 48.2%, respectively. The effective tax rate for the nine months ended March 31, 2009 was higher due to an increase in the state tax rate.

Income from Discontinued Operations

For the three and nine months ended March 31, 2010, Cano had income from discontinued operations of $1.7 million and $2.1 million, respectively. For the three and nine months ended March 31, 2009, Cano had income from discontinued operations of $0.1 million and $12.1 million, respectively. This resulted from Cano's divestitures of the certain Panhandle Properties, Pantwist and Corsicana Properties.

Preferred Stock Dividend

The preferred stock dividend for the three months ended March 31, 2010 and the three months ended March 31, 2009 was $0.5 million for each quarter. The preferred stock dividend for the nine months ended March 31, 2010 of $1.4 million was a decrease of $0.9 million from $2.3 million for the nine months ended March 31, 2009. The decrease of $0.9 million is attributable to the November and December 2008 repurchases of preferred stock. Due to the repurchases, Cano's quarterly preferred stock dividends will be approximately $0.5 million per quarter of which 59% will be PIK, with the balance paid in cash.

Selected Quarterly Financial Data (Unaudited) of Cano

Cano derived the selected historical financial data in the table below from our unaudited interim consolidated financial statements. The sum of net income per share by quarter may not equal the net income per share for the year due to variations in the weighted average shares outstanding used in computing such amounts. The historical data presented here are only a summary and should be read in conjunction with Cano's consolidated financial statements, related notes and other financial information included elsewhere in this annual report.

In thousands, except per share data

Fiscal Year Ended June 30, 2010	**Sept. 30(a)**	**Dec. 31(a)**	**Mar. 31(a)**
Operating revenues from continuing operations	$ 4,931	$ 5,634	$ 5,803
Operating loss from continuing operations	(4,726)	(8,171)	(2,383)
Loss from continuing operations	(3,693)	(8,646)	(1,494)
Income (loss) from discontinued operations, net of tax	132	212	1,722
Net income (loss) applicable to common stock	(4,031)	(8,854)	(242)
Net income (loss) per share basic	(0.09)	(0.19)	
Net income (loss) per share diluted	(0.09)	(0.19)	

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Fiscal Year Ended June 30, 2009	**Sept. 30(b)**	**Dec. 31(c)**	**Mar. 31**	**Jun. 30(d)**
Operating revenues from continuing operations	$ 10,932	$ 4,876	$ 3,928	$ 5,673
Operating loss from continuing operations	(1,335)	(33,703)	(4,332)	(19,645)
Loss from continuing operations	13,607	(8,628)	(704)	(15,986)
Income (loss) from discontinued operations, net of tax	(853)	12,246	(5)	92
Net income (loss) applicable to common stock	11,818	13,653	(1,179)	(16,363)
Net income (loss) per share basic	0.26	0.30	(0.03)	(0.36)
Net income (loss) per share diluted	0.23	0.27	(0.03)	(0.36)

Fiscal Year Ended June 30, 2008	**Sept. 30**	**Dec. 31**	**Mar. 31**	**Jun. 30(e)**
Operating revenues from continuing operations	$ 6,586	$ 7,696	$ 9,173	$ 11,195
Operating income (loss) from continuing operations	(1,008)	(155)	613	507
Loss from continuing operations	(931)	(1,412)	(1,995)	(16,654)
Income from discontinued operations, net of tax	652	722	946	1,151
Net loss applicable to common stock	(1,246)	(1,578)	(1,926)	(16,854)
Net loss per share basic and diluted	(0.04)	(0.04)	(0.05)	(0.47)

(a) The discontinued operations for the nine months ended March 31, 2010 pertain to the sale of certain wells located in our Panhandle Properties during January 2010. The discontinued operations for the years ended June 30, 2009 and 2008 pertain to discontinued operations which occured prior to June 30, 2009.

(b) For the quarter ended September 30, 2008, Cano's results of operations were favorably impacted by $24.2 million unrealized gain on commodity derivatives resulting from a significant price decrease for both crude oil and natural gas.

(c) For the quarter ended December 31, 2008, Cano's results of operations were unfavorably impacted by impairment of long-lived assets of $22.4 million, partially offset by unrealized gain on commodity derivatives.

(d) For the quarter ended June 30, 2009, Cano's results of operations were unfavorably impacted by exploration expense of $11.4 million and impairment of long-lived assets of $4.3 million.

(e) For the quarter ended June 30, 2008, Cano's results of operations were unfavorably impacted by $23.8 million unrealized loss on commodity derivatives resulting from a significant price increase for both crude oil and natural gas.

Liquidity and Capital Resources of the Combined Company

Resaca's and Cano's primary sources of capital and liquidity have been issuances of common equity, borrowings under their respective credit agreements, and cash flows from operating activities. The combined company expects to fund its calendar year 2010 budgeted capital expenditures with cash on hand, including cash retained on our balance sheet from a portion of the net proceeds of the offering, cash flow from operations and borrowings under the New Facility. The New Facility and calendar year 2010 budgeted capital expenditure plan are discussed in greater detail below.

Resaca and Cano's cash flows from operations are significantly affected by the market prices for oil and natural gas at the time of sale, our production output, and the success of our exploitation activities. Resaca and Cano's hedge positions reduce our exposure to declines in oil and gas prices. At March 31, 2010, pro forma for the completion of the merger, but without consideration of the offering and the use of proceeds as described herein, we had $1.5 million of cash on hand and $100.0 million of total debt outstanding.

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The current worldwide financial crisis has reduced the availability of liquidity and credit. Continued disruption of the credit markets could adversely affect Resaca's ability to implement its exploitation plan and limit Resaca's ability to expand its asset base, which could materially impact its results of operations, financial position or cash flows. Notwithstanding the current market conditions, Resaca's management believes it is well positioned in this market and intends to leverage the many relationships with energy lenders and other capital providers that it has developed over their extensive careers in the oil and gas industry to endure these difficult times.

Liquidity and Capital Resources of Resaca

On June 26, 2009, Resaca entered into a new $50.0 million, three-year Senior Secured Revolving Credit Facility, which we refer to as the CIT Facility, with CIT Capital USA Inc. serving as administrative agent, that matures on July 1, 2012. The initial borrowing base of the CIT Facility is $35.0 million. As of March 31, 2010, Resaca had cash and cash equivalents of approximately $0.7 million and a working capital deficit of $2.0 million. Resaca had fully drawn on the amounts available under the CIT Facility at December 31, 2009. The Company anticipates cash flows from operations will be sufficient to satisfy its currently expected working capital requirements for the next twelve months. The Company will also have the flexibility to modify its capital expenditure program based on actual operating cash flows.

On April 26, 2010, Resaca received a commitment for the New Facility which, combined with the proceeds of the offering, will provide funding for Resaca's working capital and capital expenditures following the merger. If Resaca's cash flows from operations, the proceeds from the offering, and borrowings from the New Facility are not sufficient or successful, Resaca would need to consider other alternatives, including selling certain non core properties or other credit and capital market alternatives to fund its operations and capital needs. There can be no assurance that any of these alternatives will be available at terms acceptable to Resaca or at all.

Contractual Obligations

The following table sets forth our combined contractual obligations at May 28, 2010 for the periods shown:

Amounts in thousands	**Total**	**Less than 1 Year**	**1 To 3 Years**	**3 to 5 Years**	**More Than 5 Years**
Resaca long-term debt (See Note D to Resaca's Consolidated Financial Statements)	$ 35,000	$	$ 35,000	$	$
Cano long-term debt (See Note 4 to Cano's Consolidated Financial Statements)(a)	65,900	65,900			
Cano Series D Preferred Stock	28,125		28,125		
Total contractual obligations	$ 129,025	$ 65,900	$ 63,125	$	$

(a) Cano's debt has been classified as a current liability. The maturity dates of the Union Bank/Natixis Credit Agreement and Subordinated Credit Agreement are December 17, 2012 and June 17, 2013, respectively.

Following the merger, the combined company expects to have contractual obligations of $129.0 million consisting of $35.0 million of borrowings outstanding under Resaca's CIT Facility, $50.9 million of borrowings outstanding under Cano's Union Bank/Natixis Credit Agreement, Cano debt of $15.0 million outstanding under Cano's Subordinated Credit Agreement and Cano preferred stock of $28.1 million. Immediately following the offering and closing of the New Facility, the combined company anticipates repaying all $35.0 million of Resaca's debt obligations and all $65.9 million of Cano's debt obligations with proceeds from the offering and borrowings under the New Facility. In addition, the combined company intends to use proceeds from the offering to pay between $8.1 million and $9.4 million of expenses related to the offering, the New Facility and financial advisory fees. After giving effect to the above transactions and assuming gross offering proceeds of between $50.0 million and $75 million, the combined company anticipates having between $34.0 million and $57.5 million outstanding under the New Facility (see page I-61). Additionally, the combined company will be obligated to pay cash severance costs of approximately $1.9 million six months following the closing of the merger.

In addition to these obligations, the combined company expects to spend approximately $45 million in capital expenditures in the twelve (12) months following the merger. The combined company intends to fund its expected capital expenditures with cash flow from operations and future borrowings under the New Facility. As the combined company's near-term capital expenditures target the conversion of its PDNP and PUD reserves to PDP reserves, the combined company aims to increase the borrowing base under the New Facility over the next two years. The New Facility has a two-year maturity which can be extended to three years subject to certain conditions. Based upon the conditions of the capital markets, the combined company's production profile and its reserve base, the combined company will seek to either extend, expand or reduce this facility at a time closer to its maturity.

The Cano currently issued and outstanding preferred stock will be exchanged for newly issued Resaca preferred stock immediately following the closing of the merger. The Resaca preferred stock is subject to mandatory redemption at its maturity date. The holders of the Resaca preferred stock have the option to convert the Resaca preferred stock to Resaca common stock through the maturity date of October 6, 2012. If any Resaca preferred stock remains outstanding on October 6, 2012, then the combined company is required to redeem the Resaca preferred stock in cash equal to the stated value of the Resaca preferred stock, plus accrued dividends and paid-in-kind dividends. Resaca expects to finance the redemption of outstanding Resaca preferred stock, if any, on October 6, 2012, through a combination of cash on hand, available debt borrowings and/or equity issuances.

If the combined company does not have sufficient borrowing capacity to fund its obligations and its budgeted capital expenditures and it is not able to raise additional debt or equity capital, the combined company would need to consider other alternatives, including selling non-core properties. There can be no assurance that these alternatives will be available at terms acceptable to the combined company or at all. The New Facility, including the use of its proceeds, is discussed in greater detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations of Resaca Our New Facility" on pages III-54 and III-55.

See the "Risk Factors" on pages I-59 and I-69.

Off-Balance Sheet Arrangements

Resaca's and Cano's off balance sheet arrangements are limited to operating leases that have not and are not reasonably likely to have a current or future material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Resaca's Current Credit Facility

Interest on the CIT Facility is set at LIBOR plus a 5.5% margin subject to a 2.5% LIBOR floor. At June 30, 2009 and March 31, 2010, the interest rate in place was 8.0%. Recourse for the CIT Facility is limited to Resaca, as borrower and the note is secured by all of Resaca's oil and gas properties. On December 22, 2009, Resaca executed an amendment to the CIT Facility, which amended some of the financial ratio requirements, and Resaca paid an amendment fee of $87,500. As of March 31, 2010, Resaca was not in compliance with the required ratio with respect to current assets to current liabilities and the formation of Merger Sub and obtained a waiver for noncompliance. At

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March 31, 2010, Resaca had borrowed $35.0 million outstanding under the CIT Facility. A portion of the net proceeds from the offering and borrowings under the New Facility will be used to repay, in full, the balance outstanding under the CIT Facility. Upon repayment of this facility, it will be terminated.

Cano's Current Credit Facilities

Cano's long-term debt consists of its senior credit facility (current borrowing base of $60.0 million) and its subordinated credit agreement ($15.0 million availability), which are discussed in greater detail below.

At March 31, 2010 and June 30, 2009, the outstanding amount due under Cano's credit agreements was $65.0 million and $55.7 million, respectively. The $65.0 million at March 31, 2010, consisted of outstanding borrowings under the senior and subordinated credit agreements of $50.0 million and $15.0 million, respectively. At March 31, 2010, the average interest rates under the senior and subordinated credit agreements were 2.75% and 6.26%, respectively. A portion of the net proceeds from the offering and borrowings under the New Facility will be used to repay, in full, balances outstanding under these facilities. Upon repayment of these facilities, they will be terminated.

Senior Credit Agreement

On December 17, 2008, Cano finalized a $120.0 million Amended and Restated Credit Agreement, which we refer to as the Union Bank/Natixis Credit Agreement, with UBNA and Natixis. The initial and current borrowing base, based upon Cano's proved reserves, is $60.0 million. Pursuant to the terms of the Union Bank/Natixis Credit Agreement, the borrowing base is to be redetermined semi-annually with one interim, additional redetermination allowed during any six month period between scheduled redeterminations at either the option of Cano's lenders or Cano. At Cano's option, interest is either (i) the sum of (a) the UBNA reference rate and (b) the applicable margin of (1) 0.875% if less than 50% of the borrowing base is borrowed, (2) 1.125% if at least 50% but less than 75% of the borrowing base is borrowed, (3) 1.375% if at least 75% but less than 90% of the borrowing base is borrowed or (4) 1.625% if at least 90% of the borrowing base is borrowed; or (ii) the sum of (a) the one, two, three, six, nine or twelve month LIBOR rate (at our option) and (b) the applicable margin of (1) 2.0% if less than 50% of the borrowing base is borrowed, (2) 2.25% if at least 50% but less than 75% of the borrowing base is borrowed, (3) 2.50% if at least 75% but less than 90% of the borrowing base is borrowed or (4) 2.75% if at least 90% of the borrowing base is borrowed. Cano owes a commitment fee on the unborrowed portion of the borrowing base of 0.375% per annum if less than 90% of the borrowing base is borrowed and 0.50% per annum if at least 90% of the borrowing base is borrowed. Unless specific events of default occur, the maturity date of the Union Bank/Natixis Credit Agreement is December 17, 2012. On December 30, 2009, Cano entered into Amendment No. 1 to the Union Bank/Natixis Credit Agreement, which specifies (i) Cano's borrowing base was redetermined to be $60.0 million, which will remain in effect until it is redetermined in accordance with the agreement, (ii) advances under the Union Bank/Natixis Credit Agreement for any purpose other than to acquire proved, developed, producing oil and gas properties shall not exceed $52.0 million and (iii) the covenants relating to Cano's leverage ratio and interest coverage ratio were waived for the fiscal quarter ending December 31, 2009. In connection with such amendment, Cano paid an amendment fee of $90,000. On March 30, 2010, Cano entered into Amendment No. 2 to the Union Bank/Natixis Credit Agreement, which specifies the covenants relating to Cano's leverage ratio and interest coverage ratio were waived for the fiscal quarter ending March 31, 2010. The amendment also specifies that if the Union Bank/Natixis Credit Agreement has not been replaced, refinanced, or amended and restated on or before May 31, 2010, then Cano agrees to pay on May 31, 2010 an amendment fee amount of $90,000. A portion of the net proceeds from the offering and borrowings under the New Facility will be used to repay, in full, amounts outstanding under this facility. Upon repayment of this facility, it will be terminated.

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Subordinated Credit Agreement

On December 17, 2008, Cano finalized a $25.0 million Subordinated Credit Agreement among Cano, the lenders and UnionBanCal Equities, Inc., which we refer to as UBE, as administrative agent, which we refer to as the Subordinated Credit Agreement. On March 17, 2009, Cano borrowed the maximum available amount of $15.0 million under this agreement and paid down outstanding senior debt under the Union Bank/Natixis Credit Agreement. An additional $10.0 million could be made available at the lender's sole discretion. The interest rate is the sum of (a) the one, two, three, six, nine or twelve month LIBOR rate (at Cano's option) and (b) 6.0%. Unless specific events of default occur, the maturity date is June 17, 2013. On December 30, 2009, Cano entered into Amendment No. 1 to the Subordinated Credit Agreement, which specifies the covenants relating to its leverage ratio and interest coverage ratio were waived for the fiscal quarter ending December 31, 2009. In connection with such amendment, Cano paid an amendment fee of $22,500. On March 30, 2010, Cano entered into Amendment No. 2 to the Subordinated Credit Agreement, which specifies the covenants relating to Cano's leverage ratio and interest coverage ratio were waived for the fiscal quarter ending March 31, 2010. The amendment also specifies that if the Subordinated Credit Agreement has not been terminated on or before May 31, 2010, then Cano agrees to pay on May 31, 2010 an amendment fee amount of $22,500. A portion of the net proceeds from the offering and borrowings under the New Facility will be used to repay, in full, the balance outstanding under this facility. Upon repayment of this facility, it will be terminated. The ability to make the afore-mentioned repayment of this facility and the ability to reduce overall indebtedness for the combined company is dependent upon the amount of proceeds from the offering.

Our New Facility

Resaca has a firm commitment from UBNA, as administrative agent and an issuing lender, and Natixis as an issuing lender to arrange a new revolving senior secured credit facility providing for first priority loan borrowings not to exceed a borrowing base initially determined at $90 million with financial institutions acceptable to Resaca and to the issuing lenders. The New Facility shall be guaranteed by all of the combined company's existing and future material subsidiaries. Borrowings under the New Facility shall be subject to semi-annual borrowing base redeterminations commencing September 1, 2010. The New Facility shall include provisions for the issuance of letters of credit in the aggregate maximum amount of $5 million. Advances under the New Facility shall be in the form of either base rate loans or LIBOR loans. The interest rate on base rate loans shall be tied to the "UB Reference Rate" plus a margin of 1.5% to 2.25% based on the percentage of the borrowing base utilized at the time of the credit extension. The interest rate on LIBOR loans shall be LIBOR for a 30, 60, 90 or (if available) 180 day period plus a margin of 2.50% to 3.25% based on the percentage of the borrowing base utilized at the time of the credit extension.

Interest shall be payable quarterly with respect to base rate loans and after each 30, 60, 90 or 180 (with an interim interest payment on the 90^{th} day of such interest period as well) day period, as applicable, for LIBOR loans. The New Facility will mature on July 1, 2012. The maturity date of the New Facility shall be extended to the third anniversary of the closing date of the New Facility if all of the Resaca preferred stock has been converted to common equity or the stated maturity date or the redemption date thereof has been extended to a date that is at least 91 days after the third anniversary of the closing date of the New Facility and no default then exists under the New Facility.

Proceeds of the New Facility shall be available for the following purposes: (i) to refinance in full Resaca's existing senior secured debt under the CIT Facility; (ii) to refinance in full Cano's existing senior secured debt under the Union Bank/Natixis Credit Agreement; (iii) to repay in full Cano's existing second lien debt under the Subordinated Credit Agreement with UBE; (iv) for oil and gas exploration and production; and (v) for general corporate purposes, including working capital and acquisitions.

The New Facility shall contain, among other terms, provisions for the maintenance of certain financial ratios and certain restrictions related to (i) debt, (ii) liens, (iii) mergers, (iv) asset sales, (v) investments, (vi) change of ownership, (vii) distributions, redemptions and purchase of Resaca common stock and Resaca preferred stock, and (viii) hedging transactions. The New Facility shall be secured by not less than 80% of the value of the combined company's existing and future oil and gas properties.

Resaca has negotiated the New Credit Agreement which is filed as Exhibit 10.222 hereto. The New Credit Agreeement is a working draft only. Neither the New Credit Agreement, nor any term or provision set forth in the New Credit Agreement are binding on any person or entity under any and all circumstances until the execution and delivery thereof by the parties thereto and the satisfaction of the conditions set forth therein. The New Credit Agreement is subject, in all respects, to changes, supplements and deletions and to the further review by all persons or entities involved.

Upon consummation of the New Facility, there will be a novation of all BP Corporation North America Inc., which we call BP, hedges to one of the lenders under the New Facility. See " The Combined Company's Quantitative and Qualitative Disclosures About Market Risk Commodity Risk" on page III-63.

Immediately following the offering and closing of the New Facility, the combined company anticipates repaying all $35.0 million of Resaca's debt obligations and all $65.9 million of Cano's debt obligations with proceeds from the offering and borrowings under the New Facility. In addition, the combined company intends to use proceeds of the offering to pay between $8.1 million and $9.4 million of expenses related to the offering, the New Facility and financial advisory fees. After giving effect to the above transactions and assuming gross offering proceeds of between $50.0 million and $75.0 million, the combined company anticipates having between $34.0 million and $57.5 million outstanding under the New Facility (see page I-61). The ability of the combined company to repay all of Resaca and Cano's outstanding indebtedness is dependent upon obtaining at least $45 million in gross proceeds from the offering.

Capital Expenditures

Resaca and Cano have made and will continue to make significant capital expenditures in the development and production of our oil and gas reserves. Resaca's capital expenditures for the year ended June 30, 2009 were $20.0 million, a $15.5 million increase over the year ended June 30, 2008. Resaca's capital expenditures for the nine months ended March 31, 2010 were $3.4 million, a $15.3 million decrease from the nine months ended March 31, 2009. Cano's capital expenditures for the nine months ended March 31, 2010 were $10.6 million, a $34.1 million decrease from the nine months ended March 31, 2009. The curtailment of capital expenditures for both Resaca and Cano was due to a lack of borrowing capacity under each company's senior debt facility and due to lower commodity prices.

The combined company expects to spend approximately $45 million on capital expenditures in the twelve months following the merger. We plan to fund these capital expenditures with cash on hand, cash flow from operations and future borrowings under the New Facility. Immediately following the offering and closing of the New Facility, the combined company anticipates repaying all $35.0 million of Resaca's debt obligations and all $65.9 million of Cano's debt obligations with proceeds from the offering and borrowings under the New Facility. In addition, the combined company intends to use proceeds of the offering to pay between $8.1 million and $9.4 million of expenses related to the offering, the New Facility and financial advisory fees. After giving effect to the above transactions and assuming gross offering proceeds of between $50.0 million and $75.0 million, the combined company anticipates having between $34.0 million and $57.5 million outstanding under the New Facility (see page I-61).

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If the proceeds from the offering are less than $50.0 million, we project that over the next twelve months we will need to raise funds in addition to fully incurring all available borrowings under the New Facility in order to fund the combined company's development activities and working capital needs. The estimated capital expenditures are subject to change depending on a number of factors, including the result of our exploitation and development efforts, the availability of sufficient capital resources to us, and economic and industry conditions, including prevailing and anticipated prices for oil and gas and the availability of rigs, crews, and other service providers, our financial results and our ability to obtain permits for drilling locations.

Additionally, our combined company's reserve report at December 31, 2009 assumes we will spend approximately $51 million on development capital expenditures during calendar year 2010 to develop estimated proved nonproducing and proved undeveloped reserves. As a result of delays in the timing of the closing of the merger, $15 million of calendar year 2010 development capital expenditures have been deferred. On a combined basis, we expect to spend approximately $36 million on development capital expenditures through calendar year 2010.

Critical Accounting Policies and Estimates

The process of preparing financial statements in accordance with GAAP requires Resaca's management to make estimates and judgments. It is possible that materially different amounts could be recorded if these estimates and judgments change or if actual results differ from these estimates and judgments. We have identified the following critical accounting policies that have required a significant amount of estimation and judgment by Resaca and Cano and are considered to be important to the portrayal of the combined company's expected financial position and results of operations.

Resaca accounts for its oil and gas properties under the full cost method of accounting, whereas Cano follows the successful efforts method of accounting. Following the completion of the merger, the combined company will follow the full cost method of accounting. Beginning June 30, 2010, the Ceiling Limitation (as defined below) will be calculated using the 12-month unweighted arithmetic average of the first-day-of-the-month prices and costs in effect held constant.

Resaca records gains and losses from the settlement of its commodity derivative instruments in oil and gas revenues, whereas Cano records such settlements as gain or losses on derivatives on other income (loss). Following the completion of the merger, the combined company will record gains and losses from the settlement of its derivative instruments as gains or losses on derivatives on its consolidated statements of operation.

Changes in Critical Accounting Policies and Estimates for Combined Company

Upon the completion of the merger:

- We will continue to use to full cost method of accounting instead of Cano's successful efforts method of accounting; and

- Changes in the fair market value of our derivative instruments and realized gains and losses from the settlement of derivative instruments will be recorded in Other income/(expense) as Gain (loss) on derivatives.

Resaca's Oil and Gas Properties

Oil and gas properties are accounted for using the full-cost method of accounting. Under this method, all productive and nonproductive costs incurred in connection with the acquisition, exploration, and development of oil and natural gas reserves are capitalized. This includes any internal costs that are directly related to acquisition, exploration and development activities, including salaries and benefits, but does not include any costs related to production, general corporate overhead or similar activities. During the years ended June 30, 2009 and 2008, Resaca capitalized $0.6 million and $0, respectively in overhead relating to these internal costs. During the nine months ended March 31, 2010 and 2009, Resaca capitalized $0.2 million and $0.3 million, respectively in overhead relating to these internal costs.

No gains or losses are recognized upon the sale or other disposition of oil and natural gas properties except in transactions that would significantly alter the relationship between capitalized costs and proved reserves.

Under the full cost method, the net book value of oil and natural gas properties, less related deferred income taxes, may not exceed the estimated after-tax future net revenues from proved oil and natural gas properties, discounted at 10%, which we refer to as the Ceiling Limitation. In arriving at estimated future net revenues, estimated lease operating expenses, development costs, and certain production-related and ad valorem taxes are deducted. In calculating future net revenues, prices and costs in effect at the time of the calculation are held constant indefinitely, except for changes that are fixed and determinable by existing contracts. The excess, if any, of the net book value above the Ceiling Limitation is charged to expense in the period in which it occurs and is not subsequently reinstated. Resaca prepared its ceiling test at March 31, 2010 and June 30, 2009 utilizing period-end pricing, and no impairment was deemed necessary. Reserve estimates used in determining estimated future net revenues have been prepared by an independent petroleum engineer at year end.

The costs of unevaluated oil and natural gas properties are excluded from the amortizable base until the time that either proven reserves are found or it has been determined that such properties are impaired. Resaca currently has no material capitalized costs related to unevaluated properties. All capitalized costs are included in the amortization base as of March 31, 2010 and June 30, 2009.

Cano's Oil and Gas Properties and Equipment

Cano follows the successful efforts method of accounting. Exploration expenses, including geological and geophysical expenses and delay rentals, are charged to expense. The costs of drilling and equipping exploratory wells are deferred until the company has determined whether proved reserves have been found. If proved reserves are found, the deferred costs are capitalized as part of the wells and related equipment and facilities. If no proved reserves are found, the deferred costs are charged to expense. All development activity costs are capitalized. Cano is primarily engaged in the development and acquisition of crude oil and natural gas properties. Its activities are considered development where existing proved reserves are identified prior to commencement of the project and are considered exploration if there are no proved reserves at the beginning of such project. The property costs reflected in the accompanying consolidated balance sheets resulted from acquisition and development activities and deferred exploratory drilling costs. Capitalized overhead costs that directly relate to Cano's drilling and development activities were $1.1 million and $0.8 million, for the years ended June 30, 2009 and 2008, respectively. Cano recorded capitalized interest costs of $1.4 million and $2.5 million for the years ended June 30, 2009 and 2008, respectively. Capitalized overhead costs that directly relate to Cano's drilling and development activities were $0.6 million and $0.9 million, for the nine-month periods ended March 31, 2010 and 2009, respectively. Cano recorded capitalized interest costs of $1.5 million and $0.9 million for the nine-month periods ended March 31, 2010 and 2009, respectively.

Costs for repairs and maintenance to sustain or increase production from existing producing reservoirs are charged to expense. Significant tangible equipment added or replaced that extends the useful or productive life of the property is capitalized. Costs to construct facilities or increase the productive capacity from existing reservoirs are capitalized.

Depreciation and depletion of producing properties are computed on the unit-of-production method based on estimated proved oil and natural gas reserves. Our unit-of-production amortization rates are revised prospectively on a quarterly basis based on updated engineering information for Cano's proved developed reserves. Cano's development costs and lease and wellhead equipment are depleted based on proved developed reserves. Cano's leasehold costs are depleted based on total proved reserves. Investments in major development projects are not depleted until such project is substantially complete and producing or until impairment occurs. As of June 30, 2009 and 2008, capitalized costs related to waterflood and ASP projects that were in process and not subject to depletion amounted to $49.4 million and $47.6 million, respectively, of which $4.8 million and $13.3 million, respectively, were deferred costs related to drilling and equipping exploratory wells. As of March 31, 2010 and 2009, capitalized costs related to waterflood and ASP projects that were in process and not subject to depletion amounted to $50.4 million and $59.4 million, respectively, of which $0.0 million and $16.1 million, respectively, were deferred costs related to drilling and equipping exploratory wells.

If conditions indicate that long-term assets may be impaired, the carrying value of Cano's properties is compared to management's future estimated pre-tax cash flow from the properties. If undiscounted cash flows are less than the carrying value, then the asset value is written down to fair value. Impairment of individually significant unproved properties is assessed on a property-by-property basis, and impairment of other unproved properties is assessed and amortized on an aggregate basis. The impairment assessment is affected by factors such as the results of exploration and development activities, commodity price projections, remaining lease terms, and potential shifts in Cano's business strategy.

Resaca's Proved Reserves

Independent petroleum and geological engineers have prepared estimates of Resaca's oil and natural gas reserves at June 30, 2009, 2008 and 2007 and at December 31, 2009. Proved reserves, estimated future net revenues and the present value of Resaca's reserves are estimated based upon a combination of historical data and estimates of future activity. Resaca has based its present value of proved reserves on spot prices on the date of the estimate instead of the unweighted average 12-month prices which will be applied in the combined company's annual report on Form 10-K for the fiscal year ended June 30, 2010 under the new SEC rules. The reserve estimates are used in calculating depreciation, depletion and amortization and in the assessment of our Ceiling Limitation. Significant assumptions are required in the valuation of proved oil and natural gas reserves which, as described herein, may affect the amount at which oil and natural gas properties are recorded. Actual results could differ materially from these estimates.

Cano's Proved Reserves

The term proved reserves is defined by the SEC in Rule 4-10(a) of Regulation S-X adopted under the Securities Act of 1933, as amended. In general, proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids that geological or engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based on future conditions.

Cano's estimates of proved reserves materially impact depletion expense. If proved reserves decline, then the rate at which it records depletion expense increases. A decline in estimates of proved reserves may result from lower prices, new information obtained from development drilling and production history; mechanical problems on our wells; and catastrophic events such as explosions, hurricanes and floods. Lower prices also may make it uneconomical to drill wells or produce from fields with high operating costs. In addition, a decline in proved reserves may impact Cano's assessment of its oil and natural gas properties for impairment.

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Cano's proved reserve estimates are a function of many assumptions, all of which could deviate materially from actual results. As such, reserve estimates may vary materially from the ultimate quantities of crude oil and natural gas actually produced.

Revenue Recognition of the Combined Company

The combined company's revenue recognition is based on the sales method of recording revenue. We do not have imbalances for natural gas sales. We recognize revenue when crude oil and natural gas quantities are delivered to or collected by the respective purchaser. Title to the produced quantities transfers to the purchaser at the time the purchaser receives or collects the quantities. Prices for such production are defined in sales contracts and are readily determinable based on publicly available information. The purchasers of such production have historically made payment for crude oil and natural gas purchases within thirty-five days of the end of each production month. We periodically review the difference between the dates of production and the dates we collect payment for such production to ensure that accounts receivable from the purchasers are collectible. The point of sale for our crude oil and natural gas production is at our applicable field tank batteries and gathering systems; therefore, we do not incur transportation costs related to our sales of crude oil and natural gas production.

Resaca's Derivatives

Resaca periodically enters into certain financial derivative contracts utilized for non-trading purposes to hedge the impact of market price fluctuations on its forecasted oil and gas sales. Resaca follows the provisions of the ASC 815, *Accounting for Derivative Instruments and Hedging Activities* ("ASC 815"), for the accounting of our hedge transactions. ASC 815 establishes accounting and reporting standards requiring that all derivative instruments be recorded in the consolidated balance sheet as either an asset or liability measured at fair value and requires that the changes in the fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Resaca has entered into certain over-the-counter collar contracts to hedge the cash flows of the forecasted oil and gas sales. Resaca has not chosen to document and designate these contracts as hedges. Thus, the changes in the fair value of these over-the-counter collars are reflected in earnings for the years ended June 30, 2009, 2008 and 2007 and the nine months ended March 31, 2010 and 2009. Any gains or losses resulting from the change in fair value of our derivative instruments are recorded to unrealized gain (loss) from price risk management activities, whereas realized gains and losses from the settlement of derivative instruments are recorded in oil and gas revenues.

Cano's Derivatives

Cano is required to hedge a portion of its production at specified prices for oil and natural gas under its senior and subordinated credit agreements. The purpose of the derivatives is to reduce Cano's exposure to declining commodity prices. By locking in minimum prices, Cano protects its cash flows which support our annual capital expenditure plans. Cano has entered into commodity derivatives that involve "costless collars" for Cano's crude oil and natural gas sales. These derivatives are recorded as derivative assets and liabilities on its consolidated balance sheets based upon their respective fair values. Cano has entered into an interest rate basis swap contract to reduce its exposure to future interest rate increases.

Cano does not designate its derivatives as cash flow or fair value hedges. Cano does not hold or issue derivatives for speculative or trading purposes. Cano is exposed to credit losses in the event of nonperformance by the counterparties to its commodity and interest rate swap derivatives. Cano anticipates, however, that its counterparties will be able to fully satisfy their respective obligations under its commodity and interest rate swap derivatives contracts. Cano does not obtain collateral or other security to support its commodity derivatives contracts nor is it required to post any collateral. Cano monitors the credit standing of its counterparties to understand its credit risk.

Changes in the fair values of Cano's derivative instruments and cash flows resulting from the settlement of its derivative instruments are recorded in earnings as gains or losses on derivatives on its consolidated statements of operations.

Asset Retirement Obligations of the Combined Company

The combined company follows ASC 410 *Accounting for Asset Retirement Obligations* ("ASC 410"). ASC 410 requires that an asset retirement obligation, which we refer to as ARO, associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which a legal obligation is incurred and becomes determinable, with an offsetting increase in the carrying amount of the associated asset. Our financial statements reflect the fair value for any ARO, consisting of future plugging and abandonment expenditures related to our oil and gas properties, which can be reasonably estimated. The cost of the tangible asset, including the initially recognized ARO, is depreciated such that the cost of the ARO is recognized over the useful life of the asset. The ARO is recorded at fair value, and accretion expense will be recognized over time as the discounted liability is accreted to its expected settlement value. The fair value of the ARO is measured using expected future cash outflows discounted at the company's credit-adjusted risk-free interest rate.

Inherent in the fair value calculation of ARO are numerous assumptions and judgments, including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance.

Share-Based Compensation and Expense of the Combined Company

The combined company follows ASC 718, *Share-Based Payment* ("ASC 718"), for all equity awards granted to employees and directors. ASC 718 requires all companies to expense the fair value of employee stock options and other forms of share-based compensation over the requisite service period. The values of our share-based awards consisting of stock options and restricted stock require significant management assumptions during our computation. The value of stock-based compensation is impacted by its stock price, which has been highly volatile, and items that require management's judgment, such as expected lives and forfeiture rates.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board, which we refer to as FASB, issued a standard that established the FASB Accounting Standards Codification ("ASC") and amended the hierarchy of GAAP such that the ASC became the single source of authoritative nongovernmental GAAP. The ASC did not change current GAAP, but was intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. All previously existing accounting standard documents were superseded and all other accounting literature not included in the ASC is considered non-authoritative. New accounting standards issued subsequent to June 30, 2009 are communicated by the FASB through Accounting Standards Updates ("ASUs"). The ASC became effective for both Resaca and Cano on July 1, 2009. This standard did not have an impact on Resaca's and Cano's financial position, results of operations or cash flows. Throughout the notes to the consolidated financial statements, references that were previously made to various former authoritative GAAP pronouncements have been conformed to the appropriate section of the ASC.

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ASC 260

In June 2008, the FASB issued ASC 260 (formerly EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* "ASC 260"). ASC 260 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and need to be included in the calculation of earnings per share under the two-class method. Under ASC 260, share-based payment awards that contain nonforfeitable rights to dividends are "participating securities", and therefore should be included in computing earnings per share using the two-class method. ASC 260 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Resaca and Cano both adopted ASC 260 on July 1, 2009. The adoption of this statement did not have a material impact on Resaca's and Cano's financial position, results of operations or cash flows.

ASC 805

In December 2007, the FASB issued ASC 805, *Business Combinations* ("ASC 805"). Under ASC 805, an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred. ASC 805 is effective for business combinations consummated in fiscal years beginning on or after December 15, 2008. Resaca and Cano both adopted ASC 805 effective July 1, 2009.

ASC 810

In December 2007, the FASB issued ASC 810, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* ("ASC 810"). ASC 810 establishes accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. It also establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary and requires expanded disclosures. This statement is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. Resaca and Cano both adopted ASC 810 on July 1, 2009. The adoption of this statement did not have a material impact on Resaca's and Cano's financial position, results of operations and cash flows. This standard will have an impact on the accounting for any acquisition of non-controlling interests after that date.

ASC 815

In March 2008, the FASB issued ASC 815 (formerly SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement 133*). ASC 815 expands the required disclosures to discuss the uses of derivative instruments; the accounting for derivative instruments and related hedged items under ASC 815, and how derivative instruments and related hedged items affect the company's financial position, financial performance and cash flows. Resaca and Cano both adopted ASC 815 on July 1, 2009. The adoption of this statement did not have a material impact on Resaca's or Cano's financial position, results of operations or cash flows.

In December 2008, the FASB issued ASC 815 (formerly EITF 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock)*. ASC 815 affects companies that have provisions in their securities purchase agreements (for warrants and convertible instruments) that reset conversion prices based upon new issuances by companies at prices below the current conversion price of said instrument. Warrants and convertible instruments with such provisions will require the embedded derivative instrument to be bifurcated and separately accounted for as a derivative. Subject to certain exceptions, our preferred stock provides for resetting the conversion price if we issue new common stock below a certain level. ASC 815 is effective for financial statements issued for fiscal years

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and interim periods beginning after December 15, 2008. Resaca and Cano both adopted ASC 815 on July 1, 2009. The adoption of this statement did not have a material impact on our financial position, results of operations or cash flows as the reset conversion provision did not meet the definition of a derivative since it was not readily net-cash settled.

ASC 855

In June 2009, the FASB issued ASC 855, *Subsequent Events* ("ASC 855") to establish general standards of accounting for and disclosure of events that occur after the balance sheet date, but prior to the issuance of financial statements. Specifically, ASC 855 sets forth: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855 is effective for financial statements issued for interim or annual periods ending after June 15, 2009. Resaca and Cano both adopted ASC 855 on June 30, 2009. The adoption of this statement did not have a material impact on Resaca's or Cano's financial position, results of operations or cash flows.

Modernization of Oil and Gas Reporting

On December 31, 2008, the SEC issued Release No. 33-8995, "*Modernization of Oil and Gas Reporting*," which revises disclosure requirements for oil and gas companies. In addition to changing the definition and disclosure requirements for oil and gas reserves, the new rules change the requirements for determining oil and gas reserve quantities. These rules permit the use of new technologies to determine proved reserves under certain criteria and allow companies to disclose their probable and possible reserves. The new rules also require companies to report the independence and qualifications of their reserve preparer or auditor and file reports when a third party is relied upon to prepare reserve estimates or conducts a reserve audit. The new rules also require that oil and gas reserves be reported and the full cost ceiling limitation be calculated using a twelve-month average price rather than period-end prices. The new rules are effective for annual reports on Forms 10-K for fiscal years ending on or after December 31, 2009. Early adoption of the new rules is prohibited. Additionally, the FASB issued authoritative guidance on oil and gas reserve estimation and disclosures, as set forth in ASU No. 2010-03, *Extractive Activities Oil and Gas (Topic 932),* to align with the requirements of the SEC's revised rules. The Company will begin complying with the disclosure requirements in our annual report for the year ending June 30, 2010. We are currently evaluating the potential impact of these rules on our consolidated financial statements.

ASU 2010-06

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820)*. ASU 2010-06 Subtopic 820-10 provides new guidance on improving disclosures about fair value measurements. The new standard requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement. Specifically, the new standard will now require: (a) a reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for transfers and (b) in the reconciliation for fair value measurements using significant unoberservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, the new standard clarifies the requirements of the following existing disclosures: (a) for purposes of reporting fair value measurements for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities and (b) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for

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both recurring and nonrecurring fair value measurements. The new standard is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. The adoption of the requirements of this standard in the quarter ended March 31, 2010 did not have a material impact on our financial position or results of operations. We are still in the process of evaluating the impact, if any, on our consolidated financial statements, of the standard requirements applicable for periods beginning on or after December 15, 2010.

The Combined Company's Quantitative and Qualitative Disclosures About Market Risk

The combined company's operations are exposed to market risks primarily as a result of changes in commodity prices and interest rates.

Interest Rate Risk

The New Facility is subject to risks associated with interest rate fluctuations as described therein. We do not plan to enter into any derivative instruments to mitigate this risk. The New Facility is not subject to a LIBOR floor. Assuming $50 million is outstanding under the New Facility, if there is an increase in the interest rate of 1%, Resaca's total interest cost will increase by $0.5 million annually.

Commodity Risk

Resaca's revenues are derived from the sale of our crude oil and natural gas production. The prices for oil and natural gas are extremely volatile and sometimes experience large fluctuations as a result of relatively small changes in supplies, weather conditions, economic conditions and government actions. Pursuant to Resaca's credit agreements discussed in Note D to Resaca's Consolidated Financial Statements, Resaca is required to maintain its existing commodity derivative contracts, all of which have BP as its counterparty. Under the terms of the CIT Facility, Resaca's lenders may require Resaca to enter into additional hedges. Under the CIT Facility, should Resaca choose to enter into commodity derivative contracts to mitigate future price risk, Resaca cannot enter into contracts for greater than 80% of its crude oil and natural gas production volumes attributable to proved producing reserves for a given month. Therefore, for Resaca's hedged production, Resaca will receive at least the floor prices. All of Resaca's oil derivative contracts are based on WTS prices and Resaca's gas derivative contracts are based on Waha prices. All of Resaca's derivatives contracts with BP will be novated to one or more lenders under the New Facility. As of June 30, 2009, Resaca maintained the following commodity derivative contracts:

Time Period	Floor Oil Price	Ceiling Oil Price	Barrels Per Day	Floor Gas Price	Ceiling Gas Price	Mcf per Day	Barrels of Equivalent Oil per Day
7/1/09 - 12/31/09	$ 58.00	$ 66.30	362	$ 6.30	$ 11.50	658	471
1/1/10 - 12/31/10	$ 58.00	$ 66.30	329	$ 6.30	$ 11.50	658	438
1/1/11 - 5/31/11	$ 58.00	$ 66.30	331	$ 6.30	$ 11.00	329	384
6/1/11 - 12/31/11	$ 60.00	$ 77.00	296	$ 5.50	$ 6.90	362	356
1/1/12 - 6/30/12	$ 60.00	$ 77.00	197				197

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In addition, as of June 30, 2009, Resaca maintained two fixed price commodity swap contracts, which are summarized in the table below.

Time Period	Fixed Gas Price	Mcf Per Day	Barrels of Equivalent Oil per Day
1/1/11 - 5/31/11	$ 6.10	33	5
1/1/12 - 6/30/12	$ 6.30	247	41

Assuming that the prices that Resaca received for its crude oil and natural gas production are above the floor prices, based on actual fiscal year sales volumes for the year ended June 30, 2009, a 10% decline in the prices Resaca received for its crude oil and natural gas production would have had an approximate $1.4 million negative impact on its revenues.

Resaca computed its mark-to-market valuations used for its commodity derivatives based on assumptions regarding forward prices, volatility and the time value of money. Resaca compared its valuations to its counterparty's valuations to further validate its mark-to-market valuations. During the year ended June 30, 2009, Resaca recognized an unrealized gain on commodity derivatives in its consolidated statements of operations amounting to $11.5 million. During the years ended June 30, 2008 and 2007, Resaca recognized unrealized losses on commodity derivatives in its consolidated statements of operations amounting to $12.3 million and $0.9 million, respectively. During the nine months ended March 31, 2010 and 2009, Resaca recognized an unrealized loss of $0.8 million and an unrealized gain of $15.8 million, respectively, on commodity derivatives in its consolidated statements of operations.

If crude oil prices fell $1 below Resaca's hedged crude oil price floor, Resaca would receive approximately $0.1 million annually due to having the crude oil price floor hedge in place. If natural gas prices fell $1 below Resaca's hedged natural gas price floor, Resaca would receive approximately $0.2 million annually due to having the natural gas price floor hedge in place.

Resaca has not entered into any additional commodity derivative contracts since June 30, 2009.

Pursuant to the Union Bank/Natixis Credit Agreement and Subordinated Credit Agreement discussed in Note 6 to Cano's Consolidated Financial Statements, Cano is required to maintain its existing commodity derivative contracts, all of which have UBNA as its counterparty. Cano has no obligation to enter into commodity derivative contracts in the future. Should Cano choose to enter into commodity derivative contracts to mitigate future price risk, it cannot enter into contracts for greater than 85% of its crude oil and natural gas production volumes attributable to proved producing reserves for a given month. Therefore, for the hedged production, Cano will receive at least the floor prices. All of Cano's derivative contracts will remain in place with the combined company. As of June 30, 2009, Cano maintained the following commodity derivative contracts:

Time Period	Floor Oil Price	Ceiling Oil Price	Barrels Per Day	Floor Gas Price	Ceiling Gas Price	Mcf per Day	Barrels of Equivalent Oil per Day
7/1/09 - 12/31/09	$ 80.00	$ 110.90	367	$ 7.75	$ 10.60	1,667	644
7/1/09 - 12/31/09	$ 85.00	$ 104.40	233	$ 8.00	$ 10.15	1,133	422
1/1/10 - 12/31/10	$ 80.00	$ 108.20	333	$ 7.75	$ 9.85	1,567	594
1/1/10 - 12/31/10	$ 85.00	$ 101.50	233	$ 8.00	$ 9.40	1,033	406
1/1/11 - 3/31/11	$ 80.00	$ 107.30	333	$ 7.75	$ 11.60	1,467	578
1/1/11 - 3/31/11	$ 85.00	$ 100.50	200	$ 8.00	$ 11.05	967	361

Assuming that the prices that Cano receives for its crude oil and natural gas production are above the floor prices, based on Cano's actual fiscal year sales volumes for the year ended June 30, 2009, a

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10% decline in the prices Cano receives for its crude oil and natural gas production would have had an approximate $2.5 million negative impact on its revenues.

Cano computed its mark-to-market valuations used for its commodity derivatives based on assumptions regarding forward prices, volatility and the time value of money. Cano compared its valuations to its counterparties' valuations to further validate our mark-to-market valuations. During the year ended June 30, 2009, Cano recognized an unrealized gain on commodity derivatives in its consolidated statements of operations amounting to $36.8 million. During the years ended June 30, 2008 and 2007, Cano recognized an unrealized loss on commodity derivatives in its consolidated statements of operations amounting to $29.4 million and $1.8 million, respectively.

If crude oil prices fell $1 below Cano's hedged crude oil price floor, Cano would receive approximately $0.2 million annually due to having the crude oil price floor hedge in place. If natural gas prices fell $1 below Cano's hedged natural gas price floor, Cano would receive approximately $1.1 million annually due to having the natural gas price floor hedge in place.

On September 11, 2009, Cano entered into two fixed price commodity swap contracts with its counterparty Natixis, which is one of its lenders under the senior credit agreement. The fixed price swaps are based on West Texas Intermediate NYMEX prices and are summarized in the table below.

Time Period	**Fixed Oil Price**	**Barrels Per Day**
4/1/11 - 12/31/11	$ 75.90	700
1/1/12 - 12/31/12	$ 77.25	700

Cano has not entered into any additional derivative contracts since September 11, 2009.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CANO

The following discussion and analysis prepared by Cano should be read in conjunction with "Unaudited Pro Forma Combined Financial Data," "Selected Historical Consolidated Financial Data of Cano" and the financial statements and related notes included elsewhere in this proxy statement. The following discussion and analysis contains forward-looking statements are dependent upon events, risks and uncertainties that may be outside our control. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the volatility of oil and gas prices, production timing and volumes, estimates of proved reserves, operating costs and capital expenditures, economic and competitive conditions, regulatory changes and other uncertainties, as well as those factors discussed below and elsewhere in this proxy statement, particularly in "Risk Factors" and "Cautionary Statements Concerning Forward-Looking Statements," all of which are difficult to predict. As a result of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur.

Overview

Introduction

Cano is an independent oil and natural gas company. Cano's strategy is to exploit its current undeveloped reserves and acquire, where economically prudent, assets suitable for enhanced oil recovery at a low cost. Cano intends to convert its proved undeveloped and/or unproved reserves into proved producing reserves by applying water, gas and/or chemical flooding and other EOR techniques. Cano's assets are located onshore U.S. in Texas, New Mexico and Oklahoma.

During Cano's first three years of operations, Cano's primary objective was to achieve growth through acquiring existing, mature crude oil and natural gas fields. The last two years Cano has focused on building the infrastructure and commencing waterflood operations in Cano's two largest properties, Panhandle and Cato. These development activities are more clearly described below under " Drilling Capital Development and Operating Activities Update."

Cano believes its portfolio of crude oil and natural gas properties provides opportunities to apply its operational strategy. Additionally, it will continue to evaluate acquisitions that are consistent with its operational strategy.

Overall estimated proved oil and natural gas reserves decreased by 4.1 MMBOE, or 7.7%, to 49.1 MMBOE as of June 30, 2009, as compared to 53.2 MMBOE as of June 30, 2008. Cano's June 30, 2009 proved reserves of 49.1 MMBOE, were comprised 7.7 MMBOE of PDP, 2.4 MMBOE of PDNP, and 39.0 MMBOE of PUD. Crude oil reserves accounted for 79% of Cano's total reserves at June 30, 2009. Adjusting for Cano's sale of wells in the Panhandle Properties during January 2010, Cano's adjusted proved reserves at June 30, 2009 would be 48.6 MMBOE, which comprised 7.2 MMBOE of PDP, 2.4 MMBOE of PDNP, and 39.0 MMBOE of PUD, and crude oil reserves accounted for 80.2% of total proved reserves. Additional detail of Cano's proved reserves is presented in " Business and Properties Cano's Proved Reserves."

At Cano's Cato Properties, Cano added approximately 2,623 MBOE of new reserves in extensions and discoveries due to better than expected initial waterflood response in the Phase I area of the project. Cato's production increased from roughly 200 BOEPD to over 400 BOEPD as injection into the waterflood pattern commenced in the 19 injection wells and direct crude oil production increases occurred in 29 pattern producing wells. Ultimately, this led to the conversion of approximately 1,181 MBOE of PUD to PDP reserves. Approximately 724 MBOE of prior year PUD to PDP reserve conversions at Cano's Panhandle Properties waterflood were reclassified back to PUD based upon actual response realized through June 30, 2009 (which has been slower than originally estimated).

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Offsetting the positive extensions and discoveries at Cano's Cato Properties (2,623 MBOE) were the divestitures of Cano's Corsicana and Pantwist Properties, as discussed in Note 8 to Cano's Consolidated Financial Statements, totaling 2,554 MBOE, the impairment of 2,269 MBOE at Cano's Desdemona Barnett Shale Properties due to the decline in commodity prices during the year ended June 30, 2009, which we refer to as the 2009 fiscal year, as discussed in Note 14 to Cano's Consolidated Financial Statements, and other revisions primarily driven by the decline in commodity prices and forecast changes which changed the estimated economic lives of Cano's assets (1,435 MBOE). A summary of the year-on-year changes to Cano's proved reserves is shown in the following table:

Summary of Changes in Proved Reserves	**MBOE**
Reserves at June 30, 2008	53,189
Extensions and Discoveries	2,623
Forecast Revisions	(1,435)
Financial Revisions (impairment)	(2,269)
Sales of Assets	(2,554)
Production	(457)
Reserves at June 30, 2009	49,097
Sale of certain wells in Panhandle Properties	(512)
Adjusted Reserves at June 30, 2009	48,585

Reserves were estimated using crude oil and natural gas prices and production and development costs in effect on June 30, 2009. On June 30, 2009, crude oil and natural gas prices were $69.89 per barrel and $3.71 per MMBtu, respectively. The values reported may not necessarily reflect the fair market value of the reserves.

Drilling Capital Development and Operating Activities Update

For the 2009 fiscal year, Cano incurred $52.6 million of capital expenditures ($56.2 million spent) to develop its existing fields. The $3.6 million difference between the $52.6 million incurred and the $56.2 million spent is primarily timing differences related to expenditures incurred during the 2008 fiscal year and the payments for those capital expenditures during the 2008 fiscal year. At June 30, 2009, Cano had accrued capital expenditures of $1.9 million that were paid during the 2010 fiscal year.

The goal for the 2009 fiscal year was to convert existing PUD reserves to PDP reserves and increase production. Cano drilled and completed 18 wells: four ASP observation wells at the Nowata Field, five wells in the Panhandle Field (four Harvey Unit waterflood development wells and one Cockrell ranch infill well), and nine wells at Cato (six waterflood producers and three waterflood injectors).

For the year ending June 30, 2010, which we refer to as the 2010 fiscal year, Cano's Board of Directors has approved a capital development budget of $13.9 million as follows:

- $5.4 million at Cano's Cano Properties;
- $7.8 million at Cano's Panhandle Properties; and
- $0.7 million at Cano's remaining Properties.

Of the $13.9 million budgeted development capital expenditures, Cano has incurred $8.0 million through December 31, 2009. Cano's 2010 fiscal year capital development program does not include the drilling of new wells. The financing of Cano's capital expenditures is discussed below under " Liquidity and Capital Resources." The following reviews Cano's capital development activity during the 2009 fiscal year and planned activity during the 2010 fiscal year.

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Cato Properties. Proved reserves as of June 30, 2009 attributable to the Cato Properties were 16.0 MMBOE, of which 1.9 MMBOE were PDP, 0.5 MMBOE were PDNP and 13.6 MMBOE were PUD. These properties include roughly 20,000 acres across three fields in Chavez and Roosevelt Counties, New Mexico. The prime asset is the roughly 15,000 acre Cato Field, which produces from the historically prolific San Andres formation, which has been successfully waterflooded in the Permian Basin for over 30 years. There were two successful waterflood pilots conducted in the field in the 1970's by Shell and Amoco.

Cano has experienced encouraging initial waterflood response at the Cato Field. The first phase of development (Phase I) includes 19 water injection wells, which we refer to as injectors, and 29 producing wells, which we refer to as producers. Once the injection permits were received in September 2008, Cano began injecting 7,000 BWIPD. As Cano continued injecting water into the field, waterflood production has grown from five producers during December 2008 offsetting a prior Amoco waterflood pilot to 29 producers experiencing production as of June 30, 2009. During January 2009, Cano increased the injection rate to approximately 12,000 BWIPD. During February 2009, Cano expanded the footprint of Phase 1 of the Cato waterflood from 550 to roughly 640 acres and announced an increased capital expenditures budget to $49.8 million, of which $27.0 million was intended for the Cato Properties. Cano currently has ten sub-pumps operating in the field and plan to install additional sub-pumps to support increasing production and corresponding higher levels of fluid production. The sustained production gains at the Cato Properties are the result of an earlier than expected waterflood production response.

The 2009 fiscal year drilling program at Cato, which comprised drilling nine wells (six waterflood producers and three waterflood injectors), was completed in October 2008. Normal production declines were experienced outside of the Phase I waterflooded area, but these declines were more than offset by increased production from the waterflood.

At June 30, 2009, Cano booked proved reserves extensions and discoveries at Cato as Phase I results were better than initially expected. Field production increased from roughly 200 BOEPD to over 400 BOEPD after Cano commenced injection into 19 injection wells of the waterflood pattern which led to increased crude oil production in 29 producers. When Cano increased the waterflood footprint from 550 acres to 640 acres, the rate of water injection per acre decreased leading to a temporary decrease in production. Cano added approximately 2.6 MMBOE of new reserves based on the responses experienced through June 30, 2009. Additionally, 1.1 MMBOE of PUD reserves were reclassified to PDP reserves as a result of the responses experienced in Phase I. Cano plans to increase the number of injection wells and enlarge the waterflood footprint in the 2010 fiscal year. Net production at Cato averaged 316 BOEPD in June 2009.

Cano's 2010 fiscal year development capital plan includes expanding the waterflood footprint from 640 acres to approximately 1,000 acres by adding three new injection wells, which were put into service in the second quarter of its 2010 fiscal year. Cano has identified a new source of water in a non-productive formation within its acreage, and has confirmed that the water well is capable of producing 2,500 to 3,000 barrels of water per day. This new water source formation has been penetrated in a number of existing wellbores in the Cato Properties and confirms the reservoir continuity necessary to validate it as a reliable water source for future expansion of the Cato waterflood. As Cano develops this new water source, it will be able to increase the waterflood footprint without decreasing the injection rate at its existing injectors, which should enable it to maintain production from existing producing wells at current levels. Cano averaged 14,000 BWIPD during the quarter ended September 30, 2009. Cano experienced a decrease to 12,000 BWIPD during its second and third quarters as it measured increasing injection pressures in the northern part of the flood area and was required, under its existing waterflood permit, to reduce the injection rate in these wells. On May 6, 2010, Cano received administrative approval from the New Mexico Oil and Gas Conservation Division to increase injection pressures at the 14 active wells to its current physical plant capabilities of approximately 21,000 BWIPD. Cano expects to see increasing fluid production rates and corresponding increasing oil rates as injection rates increase. Further development plans for the Cato Properties include behind-pipe recompletions, restoration of production from the Tom-Tom and Tomahawk fields, and the drilling of a Morrow formation test well. These development plans are contemplated to begin after the completion of the merger.

Net production at the Cato Properties for the three months ended March 31, 2010 was 241 BOEPD, which was 11 BOEPD lower as compared to 252 BOEPD for the quarter ended December 31, 2009. The 11 BOEPD decrease resulted from the reduction in injected water and redistribution of water injection at the waterflood. Net production at the Cato Properties for the nine months ended March 31, 2010 was 264 BOEPD. Net production at the Cato Properties for the three and nine months ended March 31, 2009 was 313 BOEPD and 284 BOEPD, respectively.

Panhandle Properties. Proved reserves as of June 30, 2009 attributable to the Panhandle Properties were 28.9 MMBOE, of which 3.5 MMBOE were PDP and 25.4 MMBOE were PUD. Adjusting for the sale of wells in the Panhandle Properties during January 2010, the adjusted proved reserves at the Panhandle Properties would be 28.4 MMBOE, which comprised 3.0 MMBOE of PDP and 25.4 MMBOE of PUD. These properties include roughly 20,000 acres in Carson, Gray and Hutchinson Counties, Texas. They are delineated in thirty-three leases the largest of which are Cockrell Ranch, Pond, Harvey, Mobil Fee, Cooper, Block and Schafer Ranch.

During the quarter ended June 30, 2009, Cano maintained its average daily water injection rate at the Cockrell Ranch Unit (our first Panhandle Properties waterflood) at roughly 75,000 barrels per day. This resulted in increasing Cano's average daily production at the Cockrell Ranch Unit from approximately 80-100 net BOEPD between June and December 2008 to maintaining 100-120 net BOEPD production through June 30, 2009. While crude oil production continues to increase at Cockrell Ranch, the gains are below Cano's expectations. Based on actual performance of the waterflood through June 30, 2009, Cano reclassified 724 MBOE of PDP reserves back to PUD at June 30, 2009. After this reclassification, the remaining amount of the prior year conversion of PUD to PDP reserves is 674 MBOE.

In the quarter ended September 30, 2009, Cano retained an independent engineering firm to assist it with reservoir analysis and simulation modeling at the Cockrell Ranch unit. Based on this engineering firm's recommendations, Cano established a controlled water injection pattern to gauge the effects of optimizing water injection into the highest remaining crude oil saturation intervals of the Brown Dolomite formation. Cano is essentially performing a "Mini-Flood" in the key target interval at the Cockrell Ranch unit. The result of this field observation, coupled with rigorous reservoir simulation modeling, is expected to demonstrate an optimal pattern for waterflooding the balance of the Cockrell Ranch unit with an increasingly predicable production profile. Moreover, the field observation and modeling results will improve the planning of future development programs for the remaining leases located within its Panhandle Properties. To isolate the observed wells, Cano had temporarily shut-in production during most of the quarter ended September 30, 2009, which reduced Panhandle production by 25 net BOEPD. All production that was shut-in for the controlled injection project was restored on September 28, 2009. Cano has experienced positive results from the controlled injection project. Oil production from wells in the affected area has increased to at or above target levels of 8-12 BOEPD on a per well basis. These results, coupled with the accompanying reservoir simulation modeling, should allow a comprehensive analysis of the potential for the Cockrell Ranch Unit. Results of the studies should be completed in the third calendar quarter of 2010.

Cano's original 2009 fiscal year waterflood capital development plan for the Panhandle Properties included six separate mini-floods on reduced well spacing to enable Cano to accelerate field development. Tighter well-spacing and smaller development patterns should accelerate permitting and response times, allowing a larger development footprint over a greater acreage position. The amended

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2009 capital development plan provided for the development of only one mini-flood phase through June 2009 (the Harvey Unit). The Harvey Unit had its waterflood permit application approved by the Texas Railroad Commission on October 20, 2008. The Harvey Unit mini-flood consists of six injection wells and 13 producing wells (which required four new wells to be drilled among the existing wells at the field). The drilling of the four replacement injector wells was completed on January 5, 2009, thus completing the mini-flood pattern. Cano initiated injection at the Harvey Unit on March 30, 2009 at a rate of 2,500 barrels per day. During the 2009 fiscal year, Cano received approval of the mini-flood permits at the Pond Lease and at the Olive-Cooper Lease. As a result of the reduction in Cano's capital plan and a focus on Cano's Cato Properties, Cano slowed the filing of Panhandle mini-flood permits. Cano now expects to file the appropriate waterflood permits for the remaining three mini-floods by the quarter ending December 31, 2009. Net production at the Panhandle Properties for June 2009 was 627 BOEPD.

Net production at the Panhandle Properties, as adjusted for the sale of certain Panhandle Properties, for the three and nine months ended March 31, 2010 was 481 BOEPD and 479 BOEPD, respectively. During the nine months ended March 31, 2010, Cano constructed gathering lines to redirect natural gas production from Eagle Rock to DCP. As of March 31, 2010, Cano had redirected approximately 80% of the natural gas production previously delivered to Eagle Rock to DCP. Net production at the Panhandle Properties for the three and nine months ended March 31, 2009 was 498 BOEPD and 485 BOEPD, respectively.

In November 2009, at the Cockrell Ranch Unit, we performed an injection test of an ASG recipe designed by UT. The test involved injecting the ASG stream at the Cockrell 1R producing well. The five-day test allowed Cano to monitor surface pressure and rate measurements and analyze flow-back production data. Results from the test will allow Cano to evaluate ASG tertiary recovery potential for the Brown Dolomite reservoir in the Panhandle Properties.

Desdemona Properties. Proved reserves as of June 30, 2009 attributable to the Desdemona Properties were 1.4 MMBOE, of which 0.1 MMBOE were PDP and 1.3 MMBOE were PDNP. Approximately 1.3 MMBOE of the reserves were attributable to the Duke Sand reservoir. As of June 30, 2009, Cano had no proved reserves associated with its Barnett Shale natural gas wells.

> **Desdemona Properties Waterflood**. Cano drilled and completed 11 required replacement wells to initiate the development of the Duke Sand Waterflood on the Desdemona Properties during the 2008 fiscal year having procured and completed infrastructure of the waterflood facilities in September 2007. Water injection commenced in September 2007. Through June 30, 2009, Cano has injected over 1.5 million barrels of water into a pilot location of the Duke Sand reservoir. The primary source of water for the waterflood was from Cano's Barnett Shale natural gas wells. During July 2009, Cano shut-in our remaining Barnett Shale producing wells due to continued low natural gas prices. Accordingly, the source for water injection for Cano's Duke Sand waterflood pilot ceased. Without a known economic source of water, Cano will not continue to defer expenditures associated with this waterflood. Therefore, Cano expensed $11.4 million during June 2009 for the aggregate deferred expenditures spent to implement this waterflood pilot. Cano continues to believe that this reservoir is an excellent secondary and tertiary recovery candidate; however, Cano does not have current plans to recommence injection for the foreseeable future. Cano had no proved reserves for the Duke Sand Waterflood pilot project.
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> **Desdemona Properties Barnett Shale**. Cano drilled and completed 15 vertical and 8 horizontal wells in the Barnett Shale during the 2007 and 2008 fiscal years. Due to the decline in natural gas commodity prices and based upon operating performance, there was uncertainty in the likelihood of developing PUDs associated with Cano's Barnett Shale Properties. Therefore, during the quarter ended December 31, 2008, Cano recorded a $22.4 million pre-tax impairment to its Barnett Shale Properties and a $0.7 million pre-tax impairment to the goodwill associated with its

subsidiary which holds the equity in Cano's Barnett Shale Properties. During the quarter ended June 30, 2009, Cano recorded an additional $4.3 million pre-tax impairment to its Barnett Shale Properties as the forward outlook for natural gas prices continued to decline.

Net production for June 2009 at the Desdemona Properties was 54 BOEPD.

During July 2009, Cano shut-in its Barnett Shale natural gas wells based upon the current and near-term outlook of natural gas prices and production from the Barnett Shale wells on a per-well basis.

Cano is in the midst of a project to return to production previously shut-in gas wells from the Duke Sand formation. Cano converted approximately 311 MBOE of previously PDNP reserves to PDP reserves with the RTP of 12 previously shut-in wells in December 2009. Production increased from 46 BOEPD for the second quarter ending December 31, 2009 to 69 BOEPD for the three months ended March 31, 2010 without the benefit of selling any NGLs. Cano plans to RTP the remaining 13 wells during the quarter ended June 30, 2010. Production from all of the RTP gas wells, including associated NGL recovery from Cano's gas plant, is expected to be approximately 10-20 Mcfe per day for each gas well returned to production. Cano restarted its gas plant in April 2010 and expects to realize the full benefit of these produced volumes in May 2010.

During the three months ended March 31, 2010, Cano drilled one new well to a total depth of 3,650 feet to test the Marble Falls, Atoka and Strawn Sand formations. Cano has completed the new well in the Strawn Sand formation at a depth of 1,750 feet. The well had initial production, on April 16, 2010, of 20 BOPD, 50 MCFPD and 450 BWPD. Cano is currently evaluating three offset locations for future Strawn Sand development in the Desdemona Properties.

Net production at the Desdemona Properties for the three and nine months ended March 31, 2010 was 69 BOEPD and 51 BOEPD, respectively. Net production at the Desdemona Properties for the three and nine months ended March 31, 2009 was 55 BOEPD and 61 BOEPD, respectively. During July 2009, Cano shut-in its Barnett Shale natural gas wells based upon the then current outlook for natural gas prices from the Barnett Shale wells.

Nowata Properties. Cano's ASP Pilot has been in full operation since December 2007. Through June 30, 2009, Cano injected close to .40 PVI of ASP and polymer flush. Cano drilled and completed four observation wells in December 2008, to enable it to test flood-front results in the pilot project. Cano completed injecting its polymer flush during June 2009. Analyses of the ASP Pilot results are complete. While Cano achieved some positive reaction to the surfactant in the reservoir, it was determined that the ASP recipe designed by an outside consultant would not achieve viable economics to justify commercial project development. The recipe did not take into consideration certain factors which lead to significant absorption of the surfactant in the reservoir rock. Cano has since retained the UT to study the ASP Pilot results at Nowata and develop an alternate recipe. Using the actual results of the ASP Pilot and performing additional coreflood studies, UT believes they have developed a new and optimal recipe that shows exceptional recoveries can be achieved at Nowata on a commercial basis. UT's work demonstrates that there is another solution to designing an optimal plan of development going forward. Cano believes that the lessons learned in regard to actual plant design and operation, fluid handling, injection pressures and rates, and producing fluid properties, may benefit full field development in the future and similar projects that Cano may undertake at its other properties.

As a result of the non-commercial results from the ASP pilot, Cano recorded a $5.0 million pre-tax exploration expense during December 2009. There were no proved reserves associated with the ASP pilot project prior to the beginning of this pilot project.

Net production for the three and nine months ended March 31, 2010 was 222 BOEPD and 219 BOEPD, respectively. Net production for the three and nine months ended March 31, 2009 was 227 BOEPD and 222 BOEPD, respectively.

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Davenport Properties. Proved reserves as of June 30, 2009 attributable to the Davenport Properties were 1.3 MMBOE, of which 0.7 MMBOE were PDP and 0.6 MMBOE were PDNP. Net production for the three and nine months ended March 31, 2010 was 78 BOEPD and 75 BOEPD, respectively. Net production for the three and nine months ended March 31, 2009 was 70 BOEPD for each time period.

Industry Conditions

Cano operates in a competitive environment for (i) acquiring properties, (ii) marketing oil and natural gas and (iii) attracting trained personnel. Some of Cano's competitors possess and employ financial resources substantially greater than Cano's and some of Cano's competitors employ more technical personnel. Some of Cano's competitors may be able to pay more for productive oil and natural gas properties and exploratory prospects and to evaluate, bid for and purchase a greater number of properties and prospects than what Cano's financial or technical resources permit. Cano's ability to acquire additional properties and to find and develop reserves in the future will depend on Cano's ability to identify, evaluate and obtain capital for investment in the oil and natural gas industry.

Cano believes significant acquisition opportunities exist and will continue to exist as major energy companies and larger independents continue to focus their attention and resources toward the discovery and development of large fields and smaller companies are faced with decreasing margins and access to capital.

Our Strategy

Exploit and Develop Existing Properties. Cano believes it has an attractive portfolio of assets to implement its business plan. Cano intends to add proved reserves to, and increase production from, its existing properties through the application of commonly used EOR technologies, including water, gas and chemical flooding and other techniques.

Acquire Strategic Assets. Cano seeks to acquire low-cost assets with reserves suitable for EOR techniques in the onshore U.S. Cano will continue to target acquisitions that meet its engineering and operational standards in a financially prudent manner.

Drill Known Formations. Cano's portfolio is composed of mature fields with proved primary and/or secondary reserves, existing infrastructure and abundant technical information. Accordingly, Cano's production growth is not dependent on wildcat exploration drilling of new formations and the high degree of speculation associated with making new discoveries, but the application of commonly used secondary and/or tertiary recovery methods to increase production and reserves.

EOR techniques involve significant capital investment and an extended period of time, generally a year or longer, until production increases. Generally, surfactant-polymer injection is regarded as more risky as compared to waterflood operations. Cano's ability to successfully convert PUD reserves to PDP reserves will be contingent upon Cano's ability to obtain future financing and/or raise additional capital. Further, there are inherent uncertainties associated with the production of crude oil and natural gas, as well as price volatility.

Merger with Resaca

On September 30, 2009, Cano and Resaca announced that their respective boards of directors had approved an agreement and plan of merger that provides for the acquisition of Cano by Resaca. Closing is anticipated before the end of June 2010, however, it is possible that factors outside of either company's control could require Resaca or Cano to complete the merger at a later time or not to complete it at all.

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Under the terms of the merger agreement, holders of Cano common stock will receive 2.1 shares (or 0.42 shares after giving effect to the Reverse Stock Split) of Resaca common stock for each share of Cano common stock held, and the existing holders of Cano preferred stock will receive one share of preferred stock of Resaca for each share of Cano preferred stock held. The merger is intended to be a tax-free transaction to the Cano stockholders to the extent the Cano common stockholders receive Resaca common stock and the Cano preferred stockholders receive Resaca preferred stock in the merger.

Consummation of the transactions contemplated by the merger agreement is conditioned upon, among other things, (1) approval of the holders of the Cano common stock and Cano preferred stock, (2) approval of the holders of Resaca common stock, (3) the listing of Resaca common stock on the NYSE Amex, (4) the refinancing of existing bank debt of Resaca and Cano, (5) the receipt of required regulatory approvals, (6) Resaca's application for readmission to the AIM, which is anticipated to occur simultaneous with the closing of the merger, and (7) the effectiveness of a registration statement relating to the shares of Resaca common stock to be issued in the merger. The merger agreement contains certain termination rights for each of Cano and Resaca, including the right to terminate the merger agreement to enter into a Superior Proposal (as such term is defined in the merger agreement). In the event of a termination of the merger agreement under certain specified circumstances described in the merger agreement, one party will be required to pay the other party a termination fee of $3.5 million.

Cano entered into stock voting agreements with 75% of the holders of Cano's Preferred Stock on various dates between September and November 2009. Each stock voting agreement contains the same terms and provides, among other things, that each of the preferred holders will vote all its shares of Cano preferred stock (a) in favor of the Series D Amendment, (b) in favor of adoption of the merger agreement, and (c) in accordance with the recommendation of our Board of Directors in connection with any Target Acquisition Proposal (as such term is defined in the merger agreement). The Series D Amendment generally provides that the holders of Cano preferred stock shall have no rights arising from the proposed merger with Resaca (including any right to require us to redeem their shares of Cano preferred stock) other than the right to receive the merger consideration specified in the merger agreement. To be effective, the Series D Amendment must be approved by the holders of a majority of the shares of Cano preferred stock, voting as a separate class, and by the holders of a majority of the shares of Cano common stock, voting as a separate class, and then filed by Cano with the Secretary of State of Delaware.

On October 20, 2009, Cano entered into a Stock Voting Agreement with S. Jeffrey Johnson, its Chief Executive Officer and Chairman of its board of directors, which provides, among other things, that Mr. Johnson will vote all of his shares of Cano's stock in favor of the Series D Amendment. Mr. Johnson owns approximately 3.6% of the Cano preferred stock. During the nine months ended March 31, 2010, Cano paid Mr. Johnson a cash preferred dividend payment of approximately $59,000.

On January 27, 2010, Resaca filed a registration statement regarding the offering, which is expected to close in conjunction with the closing of the merger.

On April 26, 2010, Resaca received a firm commitment for the New Facility with UBNA and Natixis. UBNA is the administrative agent and UBNA and Natixis are issuing lenders of the New Facility. The New Facility will mature on July 1, 2012 and is expected to have an initial and current borrowing base of $90.0 million based upon the combined company's estimated proved reserves.

Liquidity and Capital Resources

Cano's primary sources of capital and liquidity have been issuance of securities, borrowings under its credit agreements, and cash flows from operating activities. These sources are discussed in greater detail below.

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For the twelve months ended June 30, 2009, Cano's primary sources of cash were receipts from the sale of crude oil and natural gas production, issuances of Cano common stock, net borrowings under its credit agreements, sales of oil and gas properties, payments for in-the-money commodity derivative contracts, settlements from third parties and the W.O. Settlement pertaining to the Panhandle fire litigation as discussed in Note 17 to Cano's Consolidated Financial Statements. Cano's cash receipts from sales are discussed in greater detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cano Results of Operations Operating Revenues." The non-revenue sources of cash are discussed in greater detail below:

On July 1, 2008, Cano received net proceeds of $53.9 million from the issuance of 7.0 million shares of Cano common stock. The net proceeds were used to pay down long-term debt due under Cano's senior credit agreement (See Note 4 to Cano's Consolidated Financial Statements).

On October 1, 2008, Cano sold its wholly-owned subsidiary, Pantwist, LLC, which we refer to as Pantwist, for $42.7 million ($40.0 million net of closing adjustments of $2.1 million of discontinued operating income recorded in the first quarter of the 2009 fiscal year and $0.6 million in advisory fees (See Note 8 to Cano's Consolidated Financial Statements).

During October 2008, Cano sold certain uncovered "floor price" commodity derivative contracts covering July 2010 to December 2010 for $0.6 million to its counterparty, and during November 2008, Cano sold all remaining uncovered "floor price" commodity derivative contracts covering November 2008 through June 2010 for $2.6 million to its counterparty. Cano recorded a realized gain of $0.7 million and an unrealized gain of $1.3 million as a result of these transactions.

On October 31, 2008, an independent electrical contractor paid Cano $6.0 million (its full insurance policy limit) in exchange for a full release of any existing or future claims related to wildfires that began on March 12, 2006 in Carson County, Texas. The $6.0 million has been fully expended to cover the settlements discussed in Note 17 to Cano's Consolidated Financial Statements.

On December 2, 2008, Cano sold its interests in the Corsicana Properties for $0.3 million (See Note 8 to its Consolidated Financial Statements).

On December 17, 2008, Cano finalized new senior and subordinated credit facilities, as discussed in Note 6 to Cano's Consolidated Financial Statements. For the senior credit facility, the initial and current borrowing base, based upon Cano's proved reserves, is $60.0 million and has an outstanding balance of $46.2 million as of September 28, 2009. Cano has fully drawn the $15.0 million borrowing under the subordinated credit facility. Cano's two credit facilities are discussed in greater detail below.

During the twelve month period ended June 30, 2009, Cano's cash outlays were primarily for:

Lease operating expense, general and administrative expenses, and the settlement and legal fees associated with the fire litigation claims, which are discussed in greater detail in Note 17 to Cano's Consolidated Financial Statements and under "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cano Results of Operations Operating Expenses."

Capital expenditures, which are discussed in greater detail under " Drilling Capital Development and Operating Activities Update."

The repurchase of 22,948 shares of Cano preferred stock, including accrued and unpaid PIK dividends relating to such shares for approximately $10.4 million, which is discussed in greater detail in Note 5 to Cano's Consolidated Financial Statements.

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As discussed under " Drilling Capital Development and Operating Activities," Cano has $52.6 million of capital expenditures during the twelve month period ended June 30, 2009. $4.8 million of the incurred $52.6 million pertains to secondary and tertiary exploration activities (new projects where no secondary or tertiary reserves have previously been recorded). As of June 30, 2009, Cano has implemented one tertiary exploration project that has existing reserves associated with secondary recovery activities the ASP tertiary recovery pilot project at the Nowata Properties. This project is considered exploratory as it entails more risk compared to Cano's development activities where proved secondary or tertiary reserves exist since this project did not have proved tertiary reserves prior to its implementation. Cano estimates the crude oil price necessary to sustain the long-term economic viability of this project is approximately $45-$50 per barrel. This price could vary based on several factors, including actual recovery rates and chemical costs.

Liquidity

At March 31, 2010, Cano had cash and cash equivalents of $0.9 million. Cano had negative working capital of $65.3 million, which includes $65.0 million of long-term debt that was shown as a current liability. Excluding the current portion of long-term debt totaling $65.0 million, Cano had negative working capital of $0.3 million. For the nine-month period ended March 31, 2010, Cano had cash flow used in operations of $1.1 million and it incurred $1.7 million of merger related expenses.

On January 27, 2010, Cano sold its interests in certain oil and gas properties located in the Texas Panhandle for net proceeds of $6.3 million. Cano used a portion of the net proceeds to pay down its outstanding debt. As of May 28, 2010, Cano had available borrowing capacity of $1.1 million and a cash balance of $0.1 million.

The lenders under Cano's two credit agreements agreed to waive the covenants relating to its leverage ratio and interest coverage ratio for the quarters ended December 31, 2009 and March 31, 2010, as Cano would have been out of compliance with such covenants as of both dates. Should the merger with Resaca not close by June 30, 2010, based upon its nine-month operating results through March 31, 2010, it is likely that Cano will not be in compliance with one or more of its financial covenants under its credit agreements as of June 30, 2010. Accordingly, since Cano did not receive covenant relief beyond March 31, 2010, its debt is classified as a current liability. Further, Cano will seek covenant relief from its lenders, though there can be no assurance that it will be successful in obtaining such relief. If Cano is unable to obtain relief from its lenders, it will need to raise additional capital through the issuance of equity or the sale of a substantial portion of its assets. There can be no assurance as to funding Cano would be able to raise, if any, in connection with any such equity issuances or asset sales. In addition, any such equity issuances could be highly dilutive to Cano's existing stockholders and any such asset sales would require the consent of its lenders and, potentially, the holders of its outstanding common and preferred stock.

Cano's credit agreements include change of control provisions which require Cano to refinance the credit agreements at the close of the merger. On February 3, 2010, Resaca received a commitment for a new $200.0 million revolving senior secured credit facility with UBNA for the combined company.

Cano believes the combination of cash on hand, cash flow generated from operations, and available borrowing capacity, as of May 28, 2010, will be sufficient to fund its operating and capital activities through the closing of the merger.

Historically, Cano's primary sources of capital and liquidity have been issuance of equity securities, borrowings under its credit agreements, and cash flows from operating activities. To develop Cano's reserves as reported in its December 31, 2009 reserve report, it will require access to the capital markets in three of the next five years, as the projected capital expenditures are greater than projected cash flow from operations through December 2014.

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Credit Agreements

At March 31, 2010 and June 30, 2009, the outstanding amount due under Cano's credit agreements was $65.0 million and $55.7 million, respectively. The $65.0 million at March 31, 2010, consisted of outstanding borrowings under the senior and subordinated credit agreements of $50.0 million and $15.0 million, respectively. At March 31, 2010, the average interest rates under the senior and subordinated credit agreements were 2.75% and 6.26%, respectively. A portion of the net proceeds from the offering and borrowings under the New Facility will be used to repay, in full, the balances outstanding under these facilities. Upon repayment of these facilities, they will be terminated. The ability to make the aforementioned repayment of these facilities and the ability to reduce overall indebtedness for the combined company is dependent upon the amount of the proceeds of the offering.

Cano's long-term debt consists of its senior credit facility (current borrowing base of $60.0 million) and its subordinated credit agreement ($15.0 million availability), which is discussed in greater detail below.

Senior Credit Agreement

On December 17, 2008, Cano finalized the $120.0 million Union Bank/Natixis Credit Agreement with UBNA and Natixis. UBNA is the Administrative Agent and Issuing Lender of the Union Bank/Natixis Credit Agreement. The initial and current borrowing base, based upon our proved reserves, is $60.0 million. Pursuant to the terms of the Union Bank/Natixis Credit Agreement, the borrowing base is to be redetermined based upon Cano's reserves at June 30, 2009. Thereafter, there will be a scheduled redetermination every six months with one interim, additional redetermination allowed during any six month period between scheduled redeterminations at either the option of Cano's lenders or Cano.

At Cano's option, interest is either (i) the sum of (a) the UBNA reference rate and (b) the applicable margin of (1) 0.875% if less than 50% of the borrowing base is borrowed, (2) 1.125% if at least 50% but less than 75% of the borrowing base is borrowed, (3) 1.375% if at least 75% but less than 90% of the borrowing base is borrowed or (4) 1.625% if at least 90% of the borrowing base is borrowed; or (ii) the sum of (a) the one, two, three, six, nine or twelve month LIBOR rate (at Cano's option) and (b) the applicable margin of (1) 2.0% if less than 50% of the borrowing base is borrowed, (2) 2.25% if at least 50% but less than 75% of the borrowing base is borrowed, (3) 2.50% if at least 75% but less than 90% of the borrowing base is borrowed or (4) 2.75% if at least 90% of the borrowing base is borrowed. Cano owes a commitment fee on the unborrowed portion of the borrowing base of 0.375% per annum if less than 90% of the borrowing base is borrowed and 0.50% per annum if at least 90% of the borrowing base is borrowed.

Unless specific events of default occur, the maturity date of the Union Bank/Natixis Credit Agreement is December 17, 2012. Specific events of default which could cause all outstanding principal and accrued interest to be accelerated, include, but are not limited to, payment defaults, material breaches of representations and warranties, breaches of covenants, certain cross-defaults, insolvency, a change in control or a material adverse change.

The Union Bank/Natixis Credit Agreement contains certain negative covenants including, subject to certain exceptions, covenants against the following: (i) incurring additional liens, (ii) incurring additional debt or issuing additional equity interests other than common equity interests; (iii) merging or consolidating or selling, leasing, transferring, assigning, farming-out, conveying or otherwise disposing of any property, (iv) making certain payments, including cash dividends to Cano's common stockholders, (v) making any loans, advances or capital contributions to, or making any investment in, or purchasing or committing to purchase any stock or other securities or evidences of indebtedness or interest in any person or oil and gas properties or activities related to oil and gas properties unless (a) with regard to new oil and gas properties, such properties are mortgaged to UBNA, as administrative agent, or (b) with regard to new subsidiaries, such subsidiaries execute a guaranty, pledge agreement, security agreement or mortgage in favor of UBNA, as administrative agent, and (vi) entering into affiliate transactions on terms that are not at least as favorable to Cano as comparable arm's length transactions.

On December 30, 2009, Cano entered into Amendment No. 1 to the Union Bank/Natixis Credit Agreement, which specifies (i) Cano's borrowing base was redetermined to be $60.0 million, which will remain in effect until it is redetermined in accordance with the agreement, (ii) advances under the Union Bank/Natixis Credit Agreement for any purpose other than to acquire proved, developed, producing oil and gas properties shall not exceed $52.0 million and (iii) the covenants relating to Cano's leverage ratio and interest coverage ratio were waived for the fiscal quarter ending December 31, 2009. In connection with such amendment, Cano paid an amendment fee of $90,000. On March 30, 2010, Cano entered into Amendment No. 2 to the Union Bank/Natixis Credit Agreement, which specifies the covenants relating to its leverage ratio and interest coverage ratio were waived for the fiscal quarter ending March 31, 2010. The amendment also specifies that if the Union Bank/Natixis Credit Agreement has not been replaced, refinanced, or amended and restated on or before May 31, 2010, then Cano must pay an amendment fee amount of $90,000 on May 31, 2010. A portion of the net proceeds from the offering and borrowings under the New Facility will be used to repay, in full, the balance outstanding under this facility. Upon repayment of this facility, it will be terminated. The ability to make the afore-mentioned payment(s) under this facility and the ability to reduce overall indebtedness for the combined company is dependent upon the amount of proceeds from the offering.

The Union Bank/Natixis Credit Agreement contains three principal financial covenants with reconciliations to corresponding GAAP amounts (if necessary):

- A current ratio covenant that requires Cano to maintain a ratio of not less than 1.00 to 1.00 for each fiscal quarter. The current ratio is calculated by dividing current assets (as defined in the Union Bank/Natixis Credit Agreement) by current liabilities (as defined in the Union Bank/Natixis Credit Agreement). Current assets include unused borrowing base under the Union Bank/Natixis Credit Agreement and the aggregate availability under the Subordinated Credit Agreement. Current liabilities exclude all current portions of long-term debt other than any current debt relating to the Cano preferred stock and liabilities for asset retirement obligations. Current assets and current liabilities exclude derivative assets and liabilities.

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At March 31, 2010, Cano's ratio of current assets to current liabilities was 1.84 to 1.00. The calculation and reconciliation of current assets and current liabilities, as defined by GAAP, to current assets and current liabilities, as defined in the credit agreements is as follows (in thousands):

	March 31, 2010
Current assets (GAAP)	$ 8,107
Unused borrowing base at March 31, 2010	10,000(1)
Less: derivative assets	(3,486)
Modified current assets (non-GAAP)	$ 14,621(A)
Current liabilities (GAAP)	$ 73,390
Less: current portion of long-term debt	(65,000)
Less: derivative liabilities	(227)
Less: asset retirement obligation	(236)
Modified current liabilities (non-GAAP)	$ 7,927(B)
Modified current ratio (A) / (B)	1.84 to 1.00

(1) Represents the $60.0 million borrowing base under the Union Bank/Natixis Credit Agreement at March 31, 2010, less $50.0 million of debt outstanding under the Union Bank/Natixis Credit Agreement at March 31, 2010.

A ratio of consolidated Debt (as defined in the Union Bank/Natixis Credit Agreement) to consolidated EBITDA (as defined in the Union Bank/Natixis Credit Agreement) covenant that requires Cano to maintain a ratio for the four fiscal quarter period then ended of not greater than 4.00 to 1.00. For the purposes of this ratio, Debt does not include amounts relating to the Cano preferred stock. As previously discussed, Cano received a waiver for the covenant at March 31, 2010.

A ratio of consolidated EBITDA (as defined in the Union Bank/Natixis Credit Agreement) to consolidated Interest Expense (as defined in the Union Bank/Natixis Credit Agreement) covenant for the four fiscal quarter period then ended that requires Cano to maintain a ratio of not less than 3.00 to 1.00. As previously discussed, Cano received a waiver for the covenant at March 31, 2010.

The Union Bank/Natixis Credit Agreement also contains customary events of default that would permit Cano's lenders to accelerate the debt under the Union Bank/Natixis Credit Agreement if not cured within applicable grace periods, including, among others, failure to make payments of principal or interest when due, materially incorrect representations and warranties, breach of covenants, failure to make mandatory prepayments in the event of borrowing base deficiencies, events of bankruptcy, dissolution, the occurrence of one or more unstayed judgments in excess of $1,000,000 and defaults upon other obligations, including obligations under the Subordinated Credit Agreement.

Subordinated Credit Agreement

On September 30, 2008, Cano paid off the entire outstanding $15.0 million principal due under the then existing subordinated credit agreement, interest expense and a prepayment premium of $0.3 million. In conjunction with the payoff, Cano terminated that subordinated credit agreement.

On December 17, 2008, Cano finalized the $25.0 million Subordinated Credit Agreement among Cano, the lenders and UBE, as Administrative Agent. On March 17, 2009, Cano borrowed the maximum available amount of $15.0 million under this agreement and paid down outstanding senior debt under the Union Bank/Natixis Credit Agreement. An additional $10.0 million could be made available at the lender's sole discretion.

The interest rate is the sum of (a) the one, two, three, six, nine or twelve month LIBOR rate (at our option) and (b) 6.0%. Through March 17, 2009, we owed a commitment fee of 1.0% on the unborrowed portion of the available borrowing amount. As of March 17, 2009, Cano no longer has a commitment fee since it borrowed the full $15.0 million available amount.

Unless specific events of default occur, the maturity date is June 17, 2013. Specific events of default which could cause all outstanding principal and accrued interest to be accelerated, include, but are not limited to, payment defaults, material breaches of representations and warranties, breaches of covenants, certain cross-defaults, insolvency, a change in control or a material adverse change as defined in the Subordinated Credit Agreement.

The Subordinated Credit Agreement contains certain negative covenants including, subject to certain exceptions, covenants against the following: (i) incurring additional liens, (ii) incurring additional debt or issuing additional equity interests other than common equity interests of Cano; (iii) merging or consolidating or selling, leasing, transferring, assigning, farming-out, conveying or otherwise disposing of any property, (iv) making certain payments, including cash dividends to our common stockholders, (v) making any loans, advances or capital contributions to, or making any investment in, or purchasing or committing to purchase any stock or other securities or evidences of indebtedness or interest in any person or oil and gas properties or activities related to oil and gas properties unless (a) with regard to new oil and gas properties, such properties are mortgaged to UBE, as administrative agent, or (b) with regard to new subsidiaries, such subsidiaries execute a guaranty, pledge agreement, security agreement or mortgage in favor of UBE, as administrative agent, and (vi) entering into affiliate transactions on terms that are not at least as favorable to Cano as comparable arm's length transactions.

On December 30, 2009, Cano entered into Amendment No. 1 to the Subordinated Credit Agreement, which specifies the covenants relating to its leverage ratio and interest coverage ratio were waived for the fiscal quarter ending December 31, 2009. In connection with such amendment, Cano paid an amendment fee of $22,500. On March 30, 2010, Cano entered into Amendment No. 2 to the Subordinated Credit Agreement, which specifies the covenants relating to its leverage ratio and interest coverage ratio were waived for the fiscal quarter ending March 31, 2010. The amendment also specifies that if the Subordinated Credit Agreement has not been terminated on or before May 31, 2010, then Cano must pay an amendment fee amount of $22,500 on May 31, 2010. A portion of the net proceeds from the offering and borrowings under the New Facility will be used to repay, in full, the balance outstanding under this facility. Upon repayment of this facility, it will be terminated. The ability to make the afore-mentioned repayment of this facility and the ability to reduce overall indebtedness for the combined company is dependent upon the amount of proceeds from the offering.

The Subordinated Credit Agreement contains four principal financial covenants:

- A current ratio covenant that requires Cano to maintain a ratio of not less than 1.00 to 1.00 for each fiscal quarter. The current ratio is calculated by dividing current assets (as defined in the Subordinated Credit Agreement) by current liabilities (as defined in the Subordinated Credit Agreement). Current assets include unused borrowing base under the Union Bank/Natixis Credit Agreement and the aggregate availability under the Subordinated Credit Agreement but excluding any cash deposited with or at the request of a party to any commodity derivative transactions and any assets representing a valuation account arising from application of SFAS 133 and 143. Current liabilities exclude current portions of debt other than any current debt relating to the Cano preferred stock and liabilities for asset retirement obligations. At March 31, 2010, Cano's ratio of current assets to current liabilities was 1.84 to 1.00. The calculation and reconciliation of current assets and current liabilities, as defined by GAAP, to

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current assets and current liabilities, as defined in the credit agreements is as follows (in thousands):

	March 31, 2010
Current assets (GAAP)	$ 8,107
Unused borrowing base at March 31, 2010	10,000(1)
Less: derivative assets	(3,486)
Modified current assets (non-GAAP)	$ 14,621(A)
Current liabilities (GAAP)	$ 73,390
Less: current portion of long-term debt	(65,000)
Less: derivative liabilities	(227)
Less: asset retirement obligation	(236)
Modified current liabilities (non-GAAP)	$ 7,927(B)
Modified current ratio (A) / (B)	1.84 to 1.00

(1) Represents the $60.0 million borrowing base under the Union Bank/Natixis Credit Agreement at March 31, 2010, less $50.0 million of debt outstanding under the Union Bank/Natixis Credit Agreement at March 31, 2010.

A ratio of consolidated Debt (as defined in the Subordinated Credit Agreement) to consolidated EBITDA (as defined in the Subordinated Credit Agreement) covenant that requires Cano to maintain a ratio for the four fiscal quarter period then ended of not greater than 4.50 to 1.00. For the purposes of this ratio, Debt does not include amounts relating to the Cano preferred stock. As previously discussed, Cano received a waiver for the covenant at March 31, 2010.

A ratio of consolidated EBITDA (as defined in the Subordinated Credit Agreement) to consolidated Interest Expense (as defined in the Subordinated Credit Agreement) covenant for the four fiscal quarter period then ended that requires Cano to maintain a ratio of not less than 2.50 to 1.00. As previously discussed, Cano received a waiver for the covenant at March 31, 2010

A minimum asset coverage ratio covenant that requires Cano to maintain a ratio of not less than 1.50 to 1.00. The minimum asset coverage ratio is calculated by dividing (i) Total Present Value as of the applicable determination date, which is defined as the sum of 100% of the net present value, discounted at 10% per annum, of the future net revenues expected to accrue to (A) PDP reserves, (B) PDNP reserves and (C) PUD reserves, with the total present value of PDP reserves being at least 60% of the aggregate total present value, by (ii) consolidated Debt (as defined in the Subordinated Credit Agreement) as of the applicable determination date, which is semi-annually. At December 31, 2009, Cano's minimum asset coverage ratio was 3.17 to 1.00, calculated as follows (in thousands):

	Quarter Ended December 31, 2009
Total present value (non-GAAP)	$ 211,490 (G)

	December 31, 2009
Long-term debt (GAAP)	$ 66,700 (H)
Total present value to debt (G)/(H)	3.17 to 1:00

The Subordinated Credit Agreement also contains customary events of default that would permit Cano's lenders to accelerate the debt under the Subordinated Credit Agreement if not cured within

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applicable grace periods, including, among others, failure to make payments of principal or interest when due, materially incorrect representations and warranties, breach of covenants, failure to make mandatory prepayments in the event of borrowing base deficiencies, events of bankruptcy, dissolution, the occurrence of one or more unstayed judgments in excess of $1,000,000 and defaults upon other obligations, including obligations under the Union Bank/Natixis Credit Agreement.

Results of Operations

Three and Nine Months Ended March 31, 2010 Compared to the Three and Nine Months Ended March 31, 2009

For the three months ended March 31, 2010, Cano had a loss applicable to common stock of $0.2 million, which was an improvement of $1.0 million as compared to the three months ended March 31, 2009 of a $1.2 million loss applicable to common stock. The $1.0 million earnings improvement primarily related to higher operating revenues of $2.2 million and increased income from discontinued operations of $1.6 million, partially offset by reduced gain on derivatives of $2.7 million.

For the nine months ended March 31, 2010, Cano had a loss applicable to common stock of $13.1 million, which was a $37.4 million decrease as compared to the $24.3 million income applicable to common stock incurred for the nine months ended March 31, 2009. Items contributing to the $37.4 million earnings decrease were reduced gain on derivatives of $52.9 million, lower income from discontinued operations of $10.0 million, decreased income from the preferred stock repurchased for less than the carrying amount of $10.9 million and lower operating revenues of $1.7 million. Partially offsetting the earnings decrease were lower operating expenses of $27.0 million, which is primarily attributable to a $22.4 million charge for impairment of long-lived assets during the nine months ended March 31, 2009.

These items will be addressed in the following discussion.

Operating Revenues

The table below summarizes Cano's operating revenues for the three- and nine-month periods ended March 31, 2010 and 2009.

	Three months ended March 31,		Increase	Nine months ended March 31,		Increase
	2010	2009	(Decrease)	2010	2009	(Decrease)
Operating Revenues *(in thousands)*	$ 5,803	$ 3,606	$ 2,197	$ 16,368	$ 18,119	$ (1,751)
Sales Volumes						
Crude Oil (MBbls)	68	78	(10)	208	220	(12)
Natural Gas (MMcf)	90	124	(34)	324	398	(74)
Total (MBOE)	83	99	(16)	262	286	(24)
Average Realized Price						
Crude Oil ($/ Bbl)	$ 72.62	$ 35.40	$ 37.22	$ 67.56	$ 65.97	$ 1.59
Natural Gas ($/ Mcf)	$ 9.70	$ 5.41	$ 4.29	$ 7.17	$ 8.26	$ (1.09)
Operating Revenues and Commodity Derivative Settlements *(in thousands)*	$ 6,556	$ 6,452	$ 104	$ 20,167	$ 22,126	$ (1,959)
Average Adjusted Price (includes commodity derivative settlements)						
Crude Oil ($/ Bbl)	$ 75.32	$ 62.32	$ 13.00	$ 73.48	$ 79.71	$ (6.23)
Natural Gas ($/Mcf)	$ 15.99	$ 11.26	$ 4.73	$ 15.09	$ 10.74	$ 4.35

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The three months ended March 31, 2010 operating revenues of $5.8 million are $2.2 million higher as compared to the three months ended March 31, 2009 of $3.6 million. The $2.2 million increase is primarily attributable to higher average prices received for crude oil and natural gas sales of $2.5 million and $0.4 million, respectively, partially offset by lower crude oil and natural gas sales volumes which combined to reduce revenues by $0.6 million.

The nine months ended March 31, 2010 operating revenues of $16.4 million are $1.7 million lower as compared to the nine months ended March 31, 2009 of $18.1 million. The $1.7 million decrease is primarily attributable to lower crude oil and natural gas sales volumes which reduced revenues by $0.8 million and $0.6 million, respectively, and lower average prices received for natural gas sales of $0.4 million and lower other revenue of $0.3 million. Partially offsetting these revenue decreases were higher prices received for crude oil sales of $0.3 million.

The average prices Cano received for its crude oil and natural gas sales are supplemented by commodity derivative settlements received for the three- and nine month-periods ending March 31, 2010 and 2009, as presented in the preceding table. If crude oil and natural gas NYMEX prices are lower than derivative floor prices, Cano will be reimbursed by its counterparty for the difference between the NYMEX price and floor price (i.e. realized gain). Conversely, if crude oil and natural gas NYMEX prices are higher than the derivative ceiling prices, Cano will pay its counterparty for the difference between the NYMEX price and ceiling price (i.e. realized loss).

Crude Oil Sales Volumes. For the three months ended March 31, 2010, Cano's crude oil sales were 10 MBbls lower as compared to the three months ended March 31, 2009. This resulted from lower sales from the Cato Properties of 6 MBbls and from the Panhandle Properties of 4 MBbls due to severe weather during January and February 2010 which temporarily curtailed production. The sales decrease at the Cato Properties resulted from the reduction of injected water and redistribution of water injection at the waterflood which resulted in lower production, as discussed under " Drilling Capital Development and Operating Activities Update."

For the nine months ended March 31, 2010, Cano's crude oil sales were 12 MBbls lower as compared to the nine months ended March 31, 2009 due to the reasons previously discussed and lower sales from the Panhandle Properties due to temporary shut-in production at the Cockrell Ranch waterflood resulting from the controlled injection project surveillance, as previously discussed under the " Drilling Capital Development and Operating Activities Update."All Cockrell Ranch production that had been shut-in for the controlled injection project was restored on September 28, 2009.

Natural Gas Sales Volumes. For the three months ended March 31, 2010, Cano's natural gas sales were 34 MMcf lower as compared to the three months ended March 31, 2009 primarily due to reduced sales at the Cato Properties of 21 MMcf, the Panhandle Properties of 8 MMcf and the Desdemona Properties of 7 MMcf. The sales reduction at the Cato Properties occurred as the natural gas purchaser temporarily declined to take the natural gas production for most of the three months ended March 31, 2010. Gas sales resumed at the Cato Properties in mid-March 2010. The lower natural gas sales at the Panhandle Properties resulted from the severe weather, as previously discussed. Lower sales at the Desdemona Properties resulted as the gas plant was temporarily shut-in to equip the plant to handle increased natural gas production from the return to production of 25 shut-in gas wells as previously discussed under the " Drilling Capital Development and Operating Activities Update."

For the nine months ended March 31, 2010, Cano's natural gas sales were 74 MMcf lower as compared to the nine months ended March 31, 2009 primarily due to lower sales at the Desdemona Properties of 30 MMcf, Panhandle Properties of 24 MMcf and Cato Properties of 17 MMcf. Lower natural gas sales at the Desdemona Properties resulted from the shut-in natural gas production from Cano's Barnett Shale wells during July 2009, based upon the current and near-term outlook of natural gas prices and the reactivation of its gas plant, as previously discussed. Lower natural gas sales at the Panhandle Properties resulted from severe weather and from the controlled production project at

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Cockrell Ranch waterflood, as previously discussed, and one of Cano's gas purchasers experienced an unplanned plant outage from mid-August 2009 through the end of September 2009, which resulted in reduced natural gas and NGL sales. Lower natural gas sales at the Cato Properties resulted from the purchaser temporarily declining to take natural gas production, as previously discussed.

Crude Oil and Natural Gas Prices. The average price Cano receives for crude oil sales is generally at market prices received at the wellhead, except for the Cato Properties, for which it receives below market prices due to the level of impurities in the oil. The average price Cano receives for natural gas sales is approximately the market price received at the wellhead, adjusted for the value of natural gas liquids, less transportation and marketing expenses. As previously discussed, Cano has commodity derivatives in place that mitigate future price risk.

Cano expects to grow sales through its development plans as previously discussed under " Development Capital Expenditures and Operating Activities Update."

Operating Expenses

For the three months ended March 31, 2010, Cano's total operating expenses were $8.2 million, which approximated the three months ended March 31, 2009 of $8.1 million. Lower lease operating expenses of $0.4 million and lower depletion and depreciation expense of $0.4 million were offset by increased general and administrative of $0.8 million and increased production taxes of $0.1 million.

For the nine months ended March 31, 2010, Cano's total operating expenses were $31.6 million, which is a decrease of $27.0 million as compared to the nine months ended March 31, 2009 of $58.7 million. The nine months ended March 31, 2009 included an impairment of long-lived assets of $22.4 million, which is the primary reason for the overall decrease. In addition, Cano had reduced general and administrative of $7.2 million, lower lease operating expenses of $1.9 million and lower depletion and depreciation expense of $0.5 million, partially offset by the exploration expense of $5.0 million recorded during the nine months ended March 31, 2010.

Lease Operating Expenses

Cano's lease operating expenses ("LOE") consist of the costs of producing crude oil and natural gas such as labor, supplies, repairs, maintenance, workovers and utilities.

For the three months ended March 31, 2010, Cano's LOE was $3.6 million, which is $0.4 million lower than the three months ended March 31, 2009 of $4.0 million. The LOE decrease for the three months ended March 31, 2010 of $0.4 million resulted primarily from reduced service rates negotiated with the vendors of $0.3 million, lower electricity expense of $0.1 million and the shut-in of Cano's Barnett Shale natural gas wells, as previously discussed under "Operating Revenues," which reduced LOE by $0.1 million. Partially offsetting these LOE cost reductions were increased LOE at the Cato Properties of $0.1 million to support increased focus on production activities.

For the nine months ended March 31, 2010, Cano's LOE was $11.8 million, which is $1.9 million lower than the nine months ended March 31, 2009 of $13.7 million. The LOE decreases for the nine months ended March 31, 2010 of $1.9 million resulted primarily from reduced service rates negotiated with vendors of $1.2 million, lower electricity expense of $0.8 million and the shut-in of Cano's Barnett Shale natural gas wells which reduced LOE by $0.5 million. Partially offsetting these LOE cost reductions were increased LOE at the Cato Properties $0.6 million to support increased focus on production activities.

For the three months ended March 31, 2010, Cano's LOE per barrels of oil equivalent ("BOE"), based on production, was $36.88, which is an improvement of $1.22 as compared to $38.10 for the three months ended March 31, 2009. For the nine months ended March 31, 2010, Cano's LOE per BOE, based on production, was $39.80, which is an improvement of $5.27 as compared to $45.07 for

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the nine months ended March 31, 2009. In general, secondary and tertiary LOE is higher than LOE for companies developing primary production because Cano's fields are more mature and typically produce less oil and more water. Cano expects LOE to decrease during the 2010 fiscal year as it realize the continued benefit of lower service rates negotiated with vendors, and expects LOE per BOE to decrease as production increases from the waterflood and EOR development activities it has implemented and are implementing as discussed under the " Drilling Capital Development and Operating Activities Update."

Production and Ad Valorem Taxes

For the three months ended March 31, 2010, Cano's production and ad valorem taxes were $0.5 million, which is $0.2 million higher than the three months ended March 31, 2009 of $0.3 million. The $0.2 million increase resulted from higher production taxes from increased operating revenue. Cano's production taxes as a percent of operating revenues for the three months ended March 31, 2010 were 6.4% as compared to the three months ended March 31, 2009 of 5.5%.

For the nine months ended March 31, 2010, Cano's production and ad valorem taxes were $1.4 million, which is $0.3 million lower than the nine months ended March 31, 2009 of $1.7 million. The $0.3 million decrease resulted from lower production taxes of $0.1 million due to lower operating revenues and reduced ad valorem taxes of $0.2 million due to lower property tax valuations by taxing authorities for the 2009 calendar year. Cano's production taxes as a percent of operating revenues for the nine months ended March 31, 2010 of 6.4% was comparable to the nine months ended March 31, 2009 of 6.5%.

General and Administrative Expenses

Cano's general and administrative ("G&A") expenses consist of support services for its operating activities and investor relations costs.

For the three months ended March 31, 2010, Cano's G&A expenses totaled $2.9 million, which is $0.7 million higher than the three months ended March 31, 2009 of $2.2 million. The $0.7 million increase resulted from higher legal costs of $1.1 million partially offset by lower stock-based compensation costs of $0.4 million. The $1.1 million increase in legal expenses is due to the three months ended March 31, 2010 including $0.3 million of costs pertaining to litigation and merger-related activities and the three months ended March 31, 2009 included a settlement received from the former owners of the Panhandle Properties pertaining to the fire litigation. The lower stock-based compensation costs are directly related to reduced issuances of stock options and restricted stock.

For the nine months ended March 31, 2010, Cano's G&A expenses totaled $9.4 million, which is $7.2 million lower than the nine months ended March 31, 2009 of $16.6 million. The $7.2 million expense reduction resulted primarily from reduced litigation costs of $6.4 million, reduced stock-based compensation costs of $1.4 million, and lower payroll and benefits costs of $0.6 million. Partially offsetting these expense reductions were increased costs related to the merger of $1.7 million. The reduced payroll and benefits costs resulted from workforce reductions that Cano implemented during the quarter ended March 31, 2009, which eliminated 25% of its home office staff. The lower stock-based compensation was previously discussed. The litigation cost reduction occurred as Cano settled all but one of its fire litigation claims during the fiscal year ended June 30, 2009. Cano expects continued decreases in future quarters' legal expenses after Cano close the proposed merger with Resaca.

Exploration Expense

During the nine months ended March 31, 2010, Cano recorded exploration expense of $5.0 million pertaining to the Nowata Alkaline-Surfactant-Polymer ("ASP") Project. During December 2009, Cano finalized its performance analysis, which indicated the Nowata ASP Project did not result in increased

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oil production of significant quantities to be considered economically viable that would justify the recognition of proved reserves. Accordingly, at December 31, 2009, Cano recorded a $5.0 million pre-tax exploration expense.

Impairment of Long-Lived Assets and Goodwill

During the quarter ended December 31, 2009, Cano wrote down $0.3 million of costs associated with the ASP facility used for the Nowata ASP Project. The facility's water filtering process did not work properly with the oil-water fluid production at the Nowata Properties. Cano intends to use the ASP facility for future pilot tertiary projects at its Cato and Panhandle Properties.

During the quarter ended December 31, 2008, Cano recorded a $22.4 million pre-tax impairment to its Barnett Shale Properties and a $0.7 million pre-tax impairment to the goodwill associated with its subsidiary which holds the equity in its Barnett Shale Properties. Cano recorded the impairments due to the decline in commodity prices which created an uncertainty in the likelihood of developing reserves associated with its Barnett Shale Properties within the next five years.

Depletion and Depreciation

For the three months ended March 31, 2010, Cano's depletion and depreciation expense was $1.1 million, which is $0.5 million lower as compared to $1.6 million for the three months ended March 31, 2009. For the nine months ended March 31, 2010, Cano's depletion and depreciation expense was $3.6 million, which is $0.5 million lower as compared to $4.1 million for the nine months ended March 31, 2009. This includes depletion expense pertaining to Cano's oil and natural gas properties, and depreciation expense pertaining to its field operations vehicles and equipment, natural gas plant, office furniture and computers. The decrease is primarily due to lower crude oil and natural gas sales volumes (net) as previously discussed under " Operating Revenues." For the three months ended March 31, 2010 and nine months ended March 31, 2010, Cano's depletion rate pertaining to its oil and gas properties was $10.60 per BOE and $11.20 per BOE, respectively. For the three months ended March 31, 2009 and nine months ended March 31, 2009, Cano's depletion rate pertaining to its oil and gas properties was $13.34 per BOE and $12.57 per BOE, respectively.

Interest Expense and Other

For the three months ended March 31, 2010 and 2009, Cano incurred interest expense of $0.5 million and $0.1 million, respectively. For the nine months ended March 31, 2010 and 2009, Cano incurred interest expense of $0.9 million and $0.4 million, respectively. Cano's interest expense is a direct result of the credit agreements it entered into. The interest expense for the three months ended March 31, 2010 and 2009 was reduced by $0.5 million and $0.3 million, respectively, for interest cost that was capitalized to the waterflood projects discussed under " Development Capital Expenditures and Operating Activities Update." The interest expense for the nine months ended March 31, 2010 and 2009 was reduced by $1.5 million and $0.9 million, respectively, for the same reason. Cano incurred higher interest costs during the three and nine months ended March 31, 2010 due to higher outstanding debt balances. The interest rates under Cano's credit agreements for the three and nine months ended March 31, 2010 were comparable to the interest rates it incurred for the three and nine months ended March 31, 2009.

Gain (Loss) on Derivatives

Cano has entered into financial derivatives contracts for its commodity sales and interest expense. For the three months ended March 31, 2010, Cano recorded a gain on derivatives of $0.8 million as compared to a gain of $3.5 million for the three months ended March 31, 2009. The three months

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ended March 31, 2010 gain of $0.8 million consisted of an unrealized gain of $0.1 million and a realized gain on settlements of derivative contracts of $0.7 million.

For the nine months ended March 31, 2010, Cano recorded a loss on derivatives of $4.5 million as compared to a gain of $48.5 million for the nine months ended March 31, 2009. The nine months ended March 31, 2010 loss on derivatives of $4.5 million consisted of an unrealized loss of $8.1 million and a realized gain on settlements of derivative contracts of $3.6 million.

The realized gain primarily pertains to the realization of commodity settlements, as crude oil and natural gas NYMEX prices were lower than the floor prices.

The unrealized gain and loss for the three and nine months ended March 31, 2010, respectively, reflects the fair value of the commodity derivatives as of March 31, 2010 as compared to December 31, 2009 and June 30, 2009, respectively. By their nature, these commodity derivatives can have a highly volatile impact on Cano's earnings. A ten percent change in the prices for Cano's commodity derivative instruments could impact its pre-tax earnings by approximately $35,000.

Income Tax Benefit (Expense)

For the three months ended March 31, 2010, Cano had income tax benefit of $0.6 million, as compared to an income tax benefit for the three months ended March 31, 2009 of $0.4 million. For the nine months ended March 31, 2010, Cano had an income tax benefit of $6.8 million, as compared to income tax expense for the nine months ended March 31, 2009 of $3.3 million. The effective income tax rates for the three months ended March 31, 2010 and nine months ended March 31, 2010 were 28.2% and 33.0%, respectively. The effective income tax rates for the three and nine months ended March 31, 2009 were 30.4% and 48.2%, respectively. The effective tax rate for the nine months ended March 31, 2009 was higher due to an increase in the state tax rate.

Income from Discontinued Operations

For the three and nine months ended March 31, 2010, Cano had income from discontinued operations of $1.7 million and $2.1 million, respectively. For the three and nine months ended March 31, 2009, Cano had income from discontinued operations of $0.1 million and $12.1 million, respectively. This resulted from Cano's divestitures of the Certain Panhandle Properties, Pantwist, LLC and Corsicana Properties.

Preferred Stock Dividend

The preferred stock dividend for the three months ended March 31, 2010 and the three months ended March 31, 2009 was $0.5 million for each quarter. The preferred stock dividend for the nine months ended March 31, 2010 of $1.4 million was a decrease of $0.9 million from $2.3 million for the nine months ended March 31, 2009. The decrease of $0.9 million is attributable to the November and December 2008 repurchases of preferred stock. Due to the repurchases, Cano's quarterly preferred stock dividends will be approximately $0.5 million per quarter of which 59% will be PIK, with the balance paid in cash.

Years Ended June 30, 2009, 2008 and 2007

Overall

For the 2009 fiscal year, Cano had income applicable to Cano common stock of $7.9 million, which was a $29.5 million improvement as compared to the $21.6 million loss applicable to Cano common stock for the 2008 fiscal year. Items that led to the improvement were increased gain on derivatives of $75.7 million, preferred stock repurchased for less than the carrying amount of $10.9 million, higher income from discontinued operations of $8.0 million and lower Cano preferred stock dividend of

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$1.4 million. These positive factors were partially offset by higher operating expenses of $49.7 million, lower operating revenues of $9.2 million, lower deferred income tax benefit of $7.1 million and goodwill impairment of $0.7 million.

For the 2008 fiscal year, Cano had a loss applicable to Cano common stock of $21.6 million, which was $17.6 million greater than the $4.0 million loss applicable to Cano common stock incurred for the year ended June 30, 2007, which we refer to as the 2007 fiscal year. Increased revenues of $14.0 million, increased deferred tax benefit of $8.8 million and lower interest expense of $0.9 million were more than offset by higher loss on commodity derivatives of $31.1 million, higher operating expenses of $8.3 million, lower income from discontinued operations of $1.0 million and increased Cano preferred stock dividend of $0.9 million.

Operating Revenues

The table below summarizes Cano's operating revenues for the years ended June 30, 2009, 2008, and 2007.

	Year Ended June 30,			Increase (Decrease)	
	2009	**2008**	**2007**	**2009 v. 2008**	**2008 v. 2007**
Operating Revenues *(In Thousands)*	$ 25,409	$ 34,650	$ 20,651	$ (9,241)	$ 13,999
Sales:					
Crude Oil (MBbls)	309	249	223	60	26
Natural Gas (MMcf)	776	908	824	(132)	84
MBOE	438	401	360	37	41
Average Realized Price					
Crude Oil ($/Bbl)	$ 62.17	$ 94.08	$ 61.96	$ (31.91)	$ 32.12
Natural Gas ($/Mcf)	$ 7.57	$ 11.99	$ 8.29	$ (4.42)	$ 3.70
Operating Revenues and Commodity Derivative Settlements *(In Thousands)*	$ 32,299	$ 32,065	$ 21,614	$ 234	$ 10,451
Average Adjusted Price (includes Commodity derivative settlements)					
Crude Oil ($/Bbl)	$ 75.84	$ 81.92	$ 62.17	$ (6.08)	$ 19.75
Natural Gas ($/Mcf)	$ 10.23	$ 12.48	$ 9.41	$ (2.25)	$ 3.07

2009 Fiscal Year v. 2008 Fiscal Year

Cano's 2009 fiscal year operating revenues of $25.4 million were $9.2 million lower as compared to its 2008 fiscal year operating revenues of $34.7 million. The $9.2 million reduction is primarily attributable to lower prices received for crude oil and natural gas sales, which lowered revenues by $8.0 million and $4.0 million, respectively, and by lower natural gas sales volumes, which lowered revenues by $1.0 million. These decreases were partially offset by increased crude oil sales volumes, which increased revenues by $3.7 million.

The impact of lower prices for crude oil and natural gas sales, as discussed above, is partially mitigated by commodity derivative settlements received during Cano's 2009 fiscal year as presented in the preceding table. As discussed in Note 7 to Cano's Consolidated Financial Statements, if crude oil and natural gas NYMEX prices are lower than derivative floor prices, Cano will be reimbursed by its counterparty for the difference between the NYMEX price and floor price (i.e. realized gain). Conversely, if crude oil and natural gas NYMEX prices are higher than the derivative ceiling prices, Cano will pay its counterparty for the difference between the NYMEX price and ceiling price (i.e. realized loss).

Crude Oil Sales. For Cano's 2009 fiscal year, approximately 82% of the increased crude oil sales of 60 MBbls were attributed to development activity at the Cato Properties, as previously discussed

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under the " Drilling Capital Development and Operating Activities Update." Also, Cano increased crude oil sales from its Panhandle Properties due to development activity previously discussed under " Drilling Capital Development and Operating Activities Update."

Natural Gas Sales. For Cano's 2009 fiscal year, the overall decrease in natural gas sales of 132 MMcf pertains primarily to reductions with respect to its Barnett Shale project at its Desdemona Properties. During the first half of calendar year 2008, various workovers and re-fracture stimulations were attempted to increase production. Through December 2008, these efforts were met with marginal success. In January 2009, Cano halted its workover program in the Desdemona Properties Barnett Shale. Once the workover activity ceased, Cano experienced normal Barnett Shale annual production declines of approximately 65-90%. In July 2009, Cano shut-in its Barnett Shale natural gas wells and, based upon the current and near-term outlook of natural gas prices, Cano has no plans to return these wells to production in the foreseeable future.

Also, higher gas production from the Cato Properties due to the aforementioned development activity was offset by lower gas production from Cano's Panhandle Properties due to normal field decline of approximately 10% annually and temporary pipeline curtailments of gas deliveries by its gas purchasers.

Crude Oil and Natural Gas Prices. The average price Cano receives for crude oil sales is generally at market prices received at the wellhead, except for the Cato Properties, for which Cano receives below market prices due to the levels of impurities in the oil. Differentials gapped briefly as commodity prices rapidly declined between July 2008 and December 2008; however, the differentials have since recovered with the higher crude oil prices. The average price Cano receives for natural gas sales is approximately the market price received at the wellhead, adjusted for the value of natural gas liquids, less transportation and marketing expenses. As discussed in Note 7 to Cano's Consolidated Financial Statements, Cano has commodity derivatives in place that provide for $80 to $85 crude oil "floor prices" and $7.75 to $8.00 natural gas "floor prices." If crude oil and natural gas NYMEX prices are lower than the "floor prices," Cano will be reimbursed by its counterparty for the difference between the NYMEX price and "floor price."

2008 Fiscal Year v. 2007 Fiscal Year

Cano's 2008 fiscal year operating revenues of $34.7 million represent an improvement of $14.0 million as compared to Cano's 2007 fiscal year operating revenues of $20.7 million. The $14.0 million improvement is primarily attributable to:

- Higher realized prices received for crude oil and natural gas sales, as shown in the above table, which led to increases of $8.0 million and $3.3 million, respectively, and

- A full twelve months of Cato Properties operating revenues versus three months in 2007 fiscal year which contributed an additional $3.2 million to operating revenues.

Operating Expenses

2009 Fiscal Year v. 2008 Fiscal Year

For Cano's 2009 fiscal year, its total operating expenses were $84.4 million, or $49.7 million higher than its 2008 fiscal year of $34.7 million. The primary contributors to the increase were an impairment of long-lived assets of $26.7 million and exploration expense of $11.4 million associated with the Desdemona Properties Duke Sands waterflood project. In addition, Cano experienced increased lease operating expenses of $5.6 million, general and administrative of $4.3 million and higher depletion and depreciation of $1.8 million.

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2008 Fiscal Year v. 2007 Fiscal Year

For Cano's 2008 fiscal year, its total operating expenses were $34.7 million, or $8.3 million higher than its 2007 fiscal year of $26.4 million. The $8.3 million increase is primarily attributed to increased lease operating expenses of $4.6 million, higher general and administrative expenses of $2.2 million, higher production and ad valorem taxes of $0.8 million and increased depletion and depreciation expense of $0.7 million.

Lease Operating Expenses

Cano's lease operating expenses, which we refer to as LOE, consist of the costs of producing crude oil and natural gas such as labor, supplies, repairs, maintenance, workovers and utilities.

For the 2009 fiscal year, Cano's LOE was $18.8 million, which is $5.5 million higher than 2008 fiscal year of $13.3 million. The $5.5 million increase resulted primarily from increased workover activities and general repairs at the Panhandle Properties of $4.2 million and higher operating expenses incurred at the Cato Properties of $2.1 million to support increased crude oil and natural gas sales, as discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cano Results of Operations Operating Revenues," partially offset by lower operating expenses of $1.1 million due to lower natural gas sales at the Desdemona Properties, as discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cano Results of Operations Operating Revenues." Cano also had higher LOE at the Davenport and Nowata Properties of $0.3 million due to increased electricity expenses, general repairs and workover expenses. The workover activities at the Panhandle Properties pertained to returning wells to production and have increased production, as discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cano Results of Operations Operating Revenues," and are expected to result in increased production in future months.

For the 2009 fiscal year, Cano's LOE per BOE, based on production, was $41.28 as compared to $32.69 for the 2008 fiscal year. In general, secondary and tertiary LOE is higher than the LOE for companies developing primary production because Cano's fields are more mature and typically produce less oil and more water. Cano expects the LOE to decrease during the 2010 fiscal year as Cano realizes the benefit of a full year of lower service rates with vendors, and Cano expects LOE per BOE to decrease as production increases from the waterflood and EOR development activities Cano has implemented and are implementing as discussed under " Drilling Capital Development and Operating Activities Update." Cano did experience decreases in its LOE per BOE during the 2009 fiscal year as the LOE per BOE for the six months ended June 30, 2009 was $37.75, which is lower than the $44.84 LOE per BOE for the six months ended December 31, 2008.

For the 2008 fiscal year, Cano's LOE was $13.3 million, which is $4.6 million higher as compared to the 2007 fiscal year LOE of $8.7 million. Cano incurred higher LOE due to the inclusion of the Cato Properties of $0.8 million, increased lifting costs at the Desdemona Properties of $1.7 million, increased workover rig expenses at the Panhandle and Pantwist Properties of $1.6 million and increased electricity expense of $0.7 million. Other factors contributing to higher LOE were increased crude oil and natural gas sales, as discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cano Results of Operations Operating Revenues," and generally higher costs for goods and services. Cano's LOE for the 2008 fiscal year included a full year of Cato Properties' operating results versus three months in the 2007 fiscal year. Cano's LOE per BOE has increased from $23.47 during the 2007 fiscal year to $32.69 for the 2008 fiscal year, for the reasons previously discussed.

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Production and Ad Valorem Taxes

For the 2009 fiscal year, Cano's production and ad valorem taxes were $2.4 million, which is $0.1 million lower than the 2008 fiscal year of $2.5 million. Cano's production taxes were lower by $0.6 million due to lower operating revenues and were partially offset by increased ad valorem taxes of $0.5 million. The increased ad valorem taxes were due to notification of revisions in tax property valuations by taxing authorities for the 2008 calendar year. Therefore, the 2009 fiscal year includes higher tax rates for the twelve months plus a charge for applying the rates to the first six months of the 2008 calendar year. Cano's production taxes as a percent of operating revenues for the 2009 fiscal year of 6.5% was comparable to the 2008 fiscal years of 6.7%. Cano anticipates the 2010 fiscal year to be subject to similar production tax rates.

For the 2008 fiscal year, Cano's production and ad valorem taxes were $2.5 million, which is $0.8 million higher than the 2007 fiscal year of $1.7 million. The $0.8 million increase is attributable to higher operating revenues, as previously discussed.

General and Administrative Expenses

Cano's general and administrative, which Cano refers to as G&A, expenses consist of support services for its operating activities and investor relations costs.

2009 Fiscal Year v. 2008 Fiscal Year

For the 2009 fiscal year, Cano's G&A expenses totaled $19.2 million, which is $4.3 million higher than fiscal year 2008 of $14.9 million. The primary contributors to the $4.3 million increase were higher litigation costs of $4.4 million pertaining to the settlement costs and legal fees pertaining of the fire litigation as discussed in Note 17 to Cano's Consolidated Financial Statements and increased stock compensation expense of $0.2 million partially offset by reduced payroll expense of $0.3 million. During the quarter ended March 31, 2009, Cano took steps to reduce its payroll, eliminating 25% of its home office staff. The quarter ended June 30, 2009 was the first time Cano realized these savings.

Since Cano has settled all fire litigation claims except for one lawsuit, as discussed in Note 17 to Cano's Consolidated Financial Statements, Cano expects significant decreases in future quarters' legal expenses. Also, the previously discussed workforce reductions are expected to reduce payroll and benefits costs by $0.8 million annually.

2008 Fiscal Year v. 2007 Fiscal Year

For the 2008 fiscal year, Cano's G&A expenses totaled $14.9 million, which is $2.3 million higher than fiscal year 2007 of $12.6 million. The primary contributors to the $2.3 million increase were:

- Increased stock compensation expense of $2.1 million resulting from the issuance of stock options as discussed in Note 10 to Cano's Consolidated Financial Statements and the issuance of restricted shares as discussed in Note 11 to Cano's Consolidated Financial Statements,

- Increased labor and staffing costs of $0.3 million, which includes the accrual of bonuses earned during the 2008 fiscal year and the payment of bonuses during the quarter ended December 31, 2007, and

- Higher legal fees of $0.3 million pertaining to the fire litigation as discussed in Note 17 to Cano's Consolidated Financial Statements.

These increases were partially offset by lower fees of $0.3 million for accounting services to achieve full compliance with Section 404 of the Sarbanes-Oxley Act and reductions totaling $0.1 million pertaining to other expenses.

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Impairment of Long-Lived Assets

During the 2009 fiscal year, Cano recorded a $26.7 million impairment on our Barnett Shale Properties. As discussed in Note 14 to Cano's Consolidated Financial Statements, the decline in commodity prices created an uncertainty in the likelihood of developing Cano's reserves associated with its Barnett Shale natural gas properties within the next five years. Therefore, during the quarter ended December 31, 2008, we recorded a $22.4 million pre-tax impairment to Cano's Barnett Shale Properties. During the quarter ended June 30, 2009, Cano recorded an additional $4.3 million pre-tax impairment to its Barnett Shale Properties as the forward outlook for natural gas prices continued to decline and Cano shut-in its Barnett Shale natural gas wells. The fair value was determined using estimates of future production volumes, prices and operating expenses, discounted to a present value.

Exploration Expense

During the 2009 fiscal year, Cano recorded exploration expense of $11.4 million pertaining to the Duke Sands waterflood project. The primary source of water for this waterflood project had been derived from the Barnett Shale wells. Since Cano has shut-in its Barnett Shale natural gas production due to uneconomic natural gas commodity prices, as previously discussed, Cano no longer has an economic source of water to continue flooding the Duke Sands. Therefore, Cano's rate of water injection has been reduced to a point where Cano cannot consider the waterflood active. Cano continues to believe that this reservoir is an excellent secondary and tertiary recovery candidate; however, Cano does not have current plans to recommence injection for the foreseeable future.

Depletion and Depreciation

For the 2009 fiscal year, Cano's depletion and depreciation expense was $5.7 million, an increase of $1.8 million as compared to the 2008 fiscal year depletion and depreciation expense of $3.9 million. This includes depletion expense pertaining to its oil and natural gas properties, and depreciation expense pertaining to its field operations vehicles and equipment, natural gas plant, office furniture and computers. The increase is due to increased crude oil and natural gas sales volumes (net) as previously discussed under " Operating Revenues" and higher per BOE depletion rates. For the 2009 fiscal year, Cano's depletion rate pertaining to its oil and gas properties was $11.85 per BOE, as compared to the 2008 fiscal year rate of $8.90 per BOE. The increased depletion rates resulted from higher depletion rates for Cano's Cato and Panhandle Properties based on its reserve redetermination at June 30, 2009 and periodic reassessments of depletion rates during the 2009 fiscal year.

For the 2008 fiscal year, Cano's depletion and depreciation expense was $3.9 million, an increase of $0.7 million as compared to the 2007 fiscal year depletion and depreciation expense of $3.2 million. This includes depletion expense pertaining to its oil and natural gas properties, and depreciation expense pertaining to its field operations vehicles and equipment, natural gas plant, office furniture and computers. The increase is due to increased crude oil and natural gas sales volumes as previously discussed under " Operating Revenues" and higher per BOE depletion rates. For the 2008 fiscal year, Cano's depletion rate pertaining to its oil and gas properties was $8.19 per BOE, as compared to 2007 fiscal year rate of $6.91 per BOE. The higher depletion rates resulted from a reduction of reserves for the Desdemona Barnett Shale and Pantwist Properties, as discussed in Note 18 to Cano's Consolidated Financial Statements, and higher depletion rates attributed to the Cato Properties.

Interest Expense and Other

For the 2009, 2008 and 2007 fiscal years, Cano incurred interest expense of $0.5 million, $0.8 million and $1.7 million, respectively, as a direct result of the credit agreements Cano entered into, as discussed in Note 6 to Cano's Consolidated Financial Statements. The interest expense for the 2009, 2008 and 2007 fiscal years was reduced by $1.4 million, $2.5 million and $0.3 million, respectively, for

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interest cost that was capitalized to the waterflood and ASP projects discussed under the " Drilling Capital Development and Operating Activities Update." Cano incurred higher interest costs during the 2008 fiscal year due to higher outstanding debt balances and higher interest rates.

Gain (Loss) on Commodity Derivatives

As discussed in Note 7 to Cano's Consolidated Financial Statements, Cano has entered into financial contracts for its commodity derivatives and an interest rate swap arrangement. For the 2009 fiscal year, Cano recorded a gain on derivatives of $43.8 million as compared to losses of $32.0 million and $0.8 million for the 2008 and 2007 fiscal years, respectively. The 2009 fiscal year gain consisted of an unrealized gain of $36.9 million, a realized gain on settlements of commodity derivative contracts of $6.2 million and a $0.7 million realized gain on the sale of floor-priced contracts.

The 2008 fiscal year loss consists of unrealized and realized losses of $29.4 million and $2.6 million, respectively. For the 2007 fiscal year, Cano incurred an unrealized loss of $1.8 million and a realized gain of $1.0 million.

For the realization of settlements, if crude oil and natural gas NYMEX prices are lower than the floor prices, Cano will be reimbursed by its counterparty for the difference between the NYMEX price and floor price (i.e., realized gain). Conversely, if crude oil and natural gas NYMEX prices are higher than the ceiling prices, Cano will pay its counterparty for the difference between the NYMEX price and ceiling price (i.e., realized loss).

The unrealized gain for the 2009 fiscal year reflects the fair value of the commodity derivatives as of June 30, 2009. By their nature, these commodity derivatives can have a highly volatile impact on Cano's earnings. A five percent change in the prices for Cano's commodity derivative instruments could impact its pre-tax earnings by approximately $1.8 million.

Income Tax Benefit (Expense)

For the 2009 fiscal year, Cano had income tax expense of $1.7 million, as compared to an income tax benefit for the 2008 and 2007 fiscal years of $9.8 million and $0.4 million, respectively. These tax amounts included taxes related to discontinued operations as shown in Note 8 to Cano's Consolidated Financial Statements. The increased income taxes for the 2009 fiscal year, as compared to the 2008 and 2007 fiscal years, is due to the increase in taxable income and an increase in the state tax rate and other permanent items, as presented in Note 16 to Cano's Consolidated Financial Statements, resulting in an aggregate rate of 35.9%. The income tax rates for the 2008 and 2007 fiscal years was 35.3% for each year.

Income from Discontinued Operations

For the 2009, 2008 and 2007 fiscal years, Cano had income from discontinued operations of $11.5 million, $3.5 million and $4.5 million, respectively, due to Cano's divestitures of the Pantwist, LLC; Corsicana Properties and Rich Valley Properties, as discussed in Note 8 to Cano's Consolidated Financial Statements.

Preferred Stock Dividend

The preferred stock dividend for the 2009 fiscal year of $2.7 million was a decrease of $1.4 million from $4.1 million for 2008 fiscal year. This resulted from the November and December 2008 repurchases of preferred stock as discussed in Note 5 to Cano's Consolidated Financial Statements. Due to the repurchases, Cano's quarterly preferred stock dividends will be approximately $0.5 million per quarter of which 59% will be PIK, with the remaining balance paid in cash. Also, the 2008 fiscal year amount includes $0.5 million of federal tax Cano was required to withhold in accordance with

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Internal Revenue Service regulations from September 2006 through June 2008. These amounts did not have a material effect to Cano's prior period financial statements. Due to the previously discussed repurchases, Cano no longer has any Preferred Stock that required withholding taxes.

The preferred stock dividend for the 2008 fiscal year of $4.1 million was $0.9 million higher than the $3.2 million for the 2007 fiscal year. This is primarily due to $0.5 million federal tax withholding previously discussed.

Contractual Obligations

The following table sets forth Cano's contractual obligations at May 28, 2010 for the periods shown:

Amounts in thousands	Total	Less than 1 Year	1 To 3 Years	3 to 5 Years	More Than 5 Years
Long-term debt(a)	$ 65,900	$ 65,900	$	$	$
Series D Preferred Stock	28,125		28,125		
Total contractual obligations	$ 94,025	$ 65,900	$ 28,125	$	$

(a) Cano's debt is classified as a current liability. The maturity dates of the Union Bank/Natixis Credit Agreement and Subordinated Credit Agreement are December 17, 2012 and June 17, 2013, respectively. See discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations of Resaca Liquidity and Capital Resources of the Combined Company Contractual Obligations" on page III-51 regarding the combined company's plan for the contractual obligations set forth in the preceding table.

Off Balance Sheet Arrangements

Cano's off balance sheet arrangements are limited to operating leases that have not and are not reasonably likely to have a current or future material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Selected Quarterly Financial Data (Unaudited)

Cano derived the selected historical financial data in the table below from its unaudited interim consolidated financial statements. The sum of net income per share by quarter may not equal the net income per share for the year due to variations in the weighted average shares outstanding used in computing such amounts. The historical data presented here are only a summary and should be read in

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conjunction with the consolidated financial statements, related notes and other financial information included elsewhere in this annual report.

In thousands, except per share data

Fiscal Year Ended June 30, 2010	**Sept. 30(a)**	**Dec. 31(a)**	**Mar. 31(a)**
Operating revenues from continuing operations	$ 4,931	$ 5,634	$ 5,803
Operating loss from continuing operations	(4,726)	(8,171)	(2,383)
Loss from continuing operations	(3,693)	(8,646)	(1,494)
Income (loss) from discontinued operations, net of tax	132	212	1,722
Net income (loss) applicable to common stock	(4,031)	(8,854)	(242)
Net income (loss) per share basic	(0.09)	(0.19)	
Net income (loss) per share diluted	(0.09)	(0.19)	

Fiscal Year Ended June 30, 2009	**Sept. 30(b)**	**Dec. 31(c)**	**Mar. 31**	**Jun. 30(d)**
Operating revenues from continuing operations	$ 10,932	$ 4,876	$ 3,928	$ 5,673
Operating loss from continuing operations	(1,335)	(33,703)	(4,332)	(19,645)
Loss from continuing operations	13,607	(8,628)	(704)	(15,986)
Income (loss) from discontinued operations, net of tax	(853)	12,246	(5)	92
Net income (loss) applicable to common stock	11,818	13,653	(1,179)	(16,363)
Net income (loss) per share basic	0.26	0.30	(0.03)	(0.36)
Net income (loss) per share diluted	0.23	0.27	(0.03)	(0.36)

Fiscal Year Ended June 30, 2008	**Sept. 30**	**Dec. 31**	**Mar. 31**	**Jun. 30(e)**
Operating revenues from continuing operations	$ 6,586	$ 7,696	$ 9,173	$ 11,195
Operating income (loss) from continuing operations	(1,008)	(155)	613	507
Loss from continuing operations	(931)	(1,412)	(1,995)	(16,654)
Income from discontinued operations, net of tax	652	722	946	1,151
Net loss applicable to common stock	(1,246)	(1,578)	(1,926)	(16,854)
Net loss per share basic and diluted	(0.04)	(0.04)	(0.05)	(0.47)

(a) The discontinued operations for the nine months ended March 31, 2010 pertain to the sale of certain wells located in Cano's Panhandle Properties during January 2010. The discontinued operations for the years ended June 30, 2009 and 2008 pertain to discontinued operations which occurred prior to June 30, 2009.

(b) For the quarter ended September 30, 2008, Cano's results of operations were favorably impacted by $24.2 million unrealized gain on commodity derivatives resulting from a significant price decrease for both crude oil and natural gas.

(c) For the quarter ended December 31, 2008, Cano's results of operations were unfavorably impacted by impairment of long-lived assets of $22.4 million, partially offset by unrealized gain on commodity derivatives.

(d) For the quarter ended June 30, 2009, Cano's results of operations were unfavorably impacted by exploration expense of $11.4 million and impairment of long-lived assets of $4.3 million.

(e) For the quarter ended June 30, 2008, Cano's results of operations were unfavorably impacted by $23.8 million unrealized loss on commodity derivatives resulting from a significant price increase for both crude oil and natural gas.

Critical Accounting Policies

Cano has identified the critical accounting policies used in the preparation of its financial statements. These are the accounting policies that Cano has determined involve the most complex or subjective decisions or assessments.

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Cano prepared its consolidated financial statements in accordance with GAAP. GAAP requires management to make judgments and estimates, including choices between acceptable GAAP alternatives.

Oil and Gas Properties and Equipment

Cano follows the successful efforts method of accounting. Exploration expenses, including geological and geophysical expenses and delay rentals, are charged to expense. The costs of drilling and equipping exploratory wells are deferred until the company has determined whether proved reserves have been found. If proved reserves are found, the deferred costs are capitalized as part of the wells and related equipment and facilities. If no proved reserves are found, the deferred costs are charged to expense. All development activity costs are capitalized. Cano is primarily engaged in the development and acquisition of crude oil and natural gas properties. Cano's activities are considered development where existing proved reserves are identified prior to commencement of the project and are considered exploration if there are no proved reserves at the beginning of such project. The property costs reflected in the accompanying consolidated balance sheets resulted from acquisition and development activities and deferred exploratory drilling costs. Capitalized overhead costs that directly relate to Cano's drilling and development activities were $1.1 million and $0.8 million, for the years ended June 30, 2009 and 2008, respectively. Cano recorded capitalized interest costs of $1.4 million and $2.5 million for the years ended June 30, 2009 and 2008, respectively. Capitalized overhead costs that directly relate to Cano's drilling and development activities were $0.6 million and $0.9 million, for the nine-month periods ended March 31, 2010 and 2009, respectively. Cano recorded capitalized interest costs of $1.5 million and $0.9 million for the nine-month periods ended March 31, 2010 and 2009, respectively.

Costs for repairs and maintenance to sustain or increase production from existing producing reservoirs are charged to expense. Significant tangible equipment added or replaced that extends the useful or productive life of the property is capitalized. Costs to construct facilities or increase the productive capacity from existing reservoirs are capitalized. Costs to construct facilities or increase the productive capacity from existing reservoirs are capitalized.

Depreciation and depletion of producing properties are computed on the unit-of-production method based on estimated proved oil and natural gas reserves. Cano's unit-of-production amortization rates are revised prospectively on a quarterly basis based on updated engineering information for its proved developed reserves. Cano's development costs and lease and wellhead equipment are depleted based on proved developed reserves. Cano's leasehold costs are depleted based on total proved reserves. Investments in major development projects are not depleted until such project is substantially complete and producing or until impairment occurs. As of June 30, 2009 and 2008, capitalized costs related to waterflood and ASP projects that were in process and not subject to depletion amounted to $49.4 million and $47.6 million, respectively, of which $4.8 million and $13.1 million, respectively, were deferred costs related to drilling and equipping exploratory wells. As of March 31, 2010 and 2009, capitalized costs related to waterflood and ASP projects that were in process and not subject to depletion amounted to $50.4 million and $59.4 million, respectively, of which $0.0 million and $16.1 million, respectively, were deferred costs related to drilling and equipping exploratory wells.

If conditions indicate that long-term assets may be impaired, the carrying value of Cano's properties is compared to management's future estimated pre-tax cash flow from the properties. If undiscounted cash flows are less than the carrying value, then the asset value is written down to fair value. Impairment of individually significant unproved properties is assessed on a property-by-property basis, and impairment of other unproved properties is assessed and amortized on an aggregate basis. The impairment assessment is affected by factors such as the results of exploration and development activities, commodity price projections, remaining lease terms, and potential shifts in Cano's business strategy.

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Asset Retirement Obligation

Cano's financial statements reflect the fair value for any asset retirement obligation, consisting of future plugging and abandonment expenditures related to its oil and gas properties, which can be reasonably estimated. The asset retirement obligation is recorded as a liability at its estimated present value at the asset's inception, with an offsetting increase to producing properties on the consolidated balance sheets. Periodic accretion of the discount of the estimated liability is recorded as an expense in the consolidated statements of operations.

Estimates of Proved Reserves

The term proved reserves is defined by the SEC in Rule 4-10(a) of Regulation S-X adopted under the Securities Act of 1933, as amended. In general, proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids that geological or engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based on future conditions.

Cano's estimates of proved reserves materially impact depletion expense. If proved reserves decline, then the rate at which Cano records depletion expense increases. A decline in estimates of proved reserves may result from lower prices, new information obtained from development drilling and production history; mechanical problems on Cano's wells; and catastrophic events such as explosions, hurricanes and floods. Lower prices also may make it uneconomical to drill wells or produce from fields with high operating costs. In addition, a decline in proved reserves may impact Cano's assessment of its oil and natural gas properties for impairment.

Cano's proved reserve estimates are a function of many assumptions, all of which could deviate materially from actual results. As such, reserve estimates may vary materially from the ultimate quantities of crude oil and natural gas actually produced.

Revenue Recognition

Cano's revenue recognition is based on the sales method of recording revenue. Cano does not have imbalances for natural gas sales. Cano recognizes revenue when crude oil and natural gas quantities are delivered to or collected by the respective purchaser. Title to the produced quantities transfers to the purchaser at the time the purchaser receives or collects the quantities. Prices for such production are defined in sales contracts and are readily determinable based on publicly available information. The purchasers of such production have historically made payment for crude oil and natural gas purchases within thirty-five days of the end of each production month. Cano periodically reviews the difference between the dates of production and the dates Cano collects payment for such production to ensure that accounts receivable from the purchasers are collectible. The point of sale for Cano's crude oil and natural gas production is at its applicable field tank batteries and gathering systems; therefore, Cano does not incur transportation costs related to its sales of crude oil and natural gas production.

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As previously discussed, for the years ended June 30, 2009, 2008 and 2007, Cano sold our crude oil and natural gas production to several independent purchasers. The following table shows purchasers that accounted for 10% or more of its total revenues:

	Year Ended June 30,		
	2009	2008	2007
Valero Marketing Supply Co.	32%	33%	36%
Coffeeville Resources Refinery and Marketing, LLC	18%	15%	16%
Plains Marketing, LP	15%	*	*
Eagle Rock Field Services, LP	13%	18%	18%
DCP Midstream, LP	10%	14%	17%

*
Less than 10% of operating revenue

In the event that one or more of these significant purchasers ceases doing business with Cano, Cano believes that there are potential alternative purchasers with whom it could establish new relationships and that those relationships would result in the replacement of one or more lost purchasers. Cano would not expect the loss of any single purchaser to have a long-term material adverse effect on its operations, though Cano may experience a short-term decrease in its revenues as Cano makes arrangements for alternative purchasers. However, the loss of a single purchaser could potentially reduce the competition for Cano's crude oil and natural gas production, which could negatively impact the prices it receives.

Stock-Based Compensation Expense

Cano accounts for share-based payment arrangements with employees and directors at their grant-date fair value and record the related expense over their respective vesting periods. The value of stock-based compensation is impacted by Cano's stock price, which has been highly volatile, and items that require management's judgment, such as expected lives and forfeiture rates.

Derivatives

Cano is required to hedge a portion of its production at specified prices for oil and natural gas under its senior and subordinated credit agreements, as discussed in Note 6 to Cano's Consolidated Financial Statements. The purpose of the derivatives is to reduce Cano's exposure to declining commodity prices. By locking in minimum prices, Cano protects its cash flows which support its annual capital expenditure plans. Cano has entered into commodity derivatives that involve "costless collars" for its crude oil and natural gas sales. These derivatives are recorded as derivative assets and liabilities on its consolidated balance sheets based upon their respective fair values. Cano has entered into an interest rate basis swap contract to reduce its exposure to future interest rate increases.

Cano does not designate its derivatives as cash flow or fair value hedges. Cano does not hold or issue derivatives for speculative or trading purposes. Cano is exposed to credit losses in the event of nonperformance by the counterparties to its commodity and interest rate swap derivatives. Cano anticipates, however, that its counterparties will be able to fully satisfy their respective obligations under Cano's commodity and interest rate swap derivatives contracts. Cano does not obtain collateral or other security to support its commodity derivatives contracts nor is Cano required to post any collateral. Cano monitors the credit standing of its counterparties to understand its credit risk.

Changes in the fair values of Cano's derivative instruments and cash flows resulting from the settlement of Cano's derivative instruments are recorded in earnings as gains or losses on derivatives on Cano's consolidated statements of operations.

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New Accounting Pronouncements

In June 2009, FASB issued a standard that established the FASB Accounting Standards Codification , which we refer to as ASC, and amended the hierarchy of GAAP such that the ASC became the single source of authoritative nongovernmental GAAP. The ASC did not change current GAAP, but was intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. All previously existing accounting standard documents were superseded and all other accounting literature not included in the ASC is considered non-authoritative. New accounting standards issued subsequent to June 30, 2009 are communicated by the FASB through ASUs. The ASC became effective for Cano on July 1, 2009. This standard did not have an impact on Cano's financial position, results of operations or cash flows. Throughout the notes to the consolidated financial statements, references that were previously made to various former authoritative GAAP pronouncements have been conformed to the appropriate section of the ASC.

In December 2007, the FASB issued ASC 805 (formerly SFAS No. 141 (revised 2007), *Business Combinations*). Among other things, ASC 805 establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC 805 is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. Cano adopted ASC 805 on July 1, 2009. This standard will change Cano's accounting treatment for prospective business combinations.

In December 2007, the FASB issued ASC 810 (formerly SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51*). ASC 810 establishes accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. It also establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary and requires expanded disclosures. This statement is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. Cano adopted SFAS No. 160 on July 1, 2009. The adoption of this statement did not have a material impact on Cano's financial position, results of operations or cash flows.

In March 2008, the FASB issued ASC 815 (formerly SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement 13*). ASC 815 expands the required disclosures to discuss the uses of derivative instruments; the accounting for derivative instruments and related hedged items, and how derivative instruments and related hedged items affect the company's financial position, financial performance and cash flows. Cano adopted ASC 815 on July 1, 2009. The adoption of this statement did not have a material impact on Cano's financial position, results of operations or cash flows.

In June 2008, the FASB issued ASC 260 (formerly EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*). ASC 260 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and need to be included in the calculation of earnings per share under the two-class method. Under ASC 260, share-based payment awards that contain nonforfeitable rights to dividends are "participating securities" and, therefore, should be included in computing earnings per share using the two-class method. ASC 260 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Cano adopted ASC 260 on July 1, 2009. The effect of adopting ASC 260 increased the number of shares used to compute earnings per share; however, the adoption of

ASC 260 did not have a material impact on Cano's financial position, results of operations or cash flows.

In December 2008, the FASB issued ASC 815 (formerly EITF 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*). ASC 815 affects companies that have provisions in their securities purchase agreements (for warrants and convertible instruments) that reset conversion prices based upon new issuances by companies at prices below the current conversion price of said instrument. Warrants and convertible instruments with such provisions will require the embedded derivative instrument to be bifurcated and separately accounted for as a derivative. Subject to certain exceptions, Cano's preferred stock provides for resetting the conversion price if Cano issues new common stock below $5.75 per share. ASC 815 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Cano adopted ASC 815 on July 1, 2009. The adoption of this statement did not have a material impact on Cano's financial position, results of operations or cash flows since the reset conversion provision did not meet the definition of a derivative since it was not readily net-cash settled.

In June 2009, the FASB issued ASC 855 (formerly SFAS 165, *Subsequent Events*) to establish general standards of accounting for and disclosure of events that occur after the balance sheet date, but prior to the issuance of financial statements. Specifically, ASC 855 sets forth: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855 is effective for financial statements issued for interim or annual periods ending after June 15, 2009. Cano adopted ASC 855 on June 30, 2009. The adoption of this statement did not have a material impact on Cano's financial position, results of operations or cash flows.

Quantitative and Qualitative Disclosures About Market Risk

Cano's operations are exposed to market risks primarily as a result of changes in commodity prices and interest rates.

Interest Rate Risk

Pursuant to Cano's credit agreements, it is subject to risks associated with interest rate fluctuations, as described under " Credit Agreements." Cano has partially mitigated this risk by implementing an interest rate swap agreement, as discussed in Note 7 to its Consolidated Financial Statements. This agreement is effective through January 12, 2012 and establishes a fixed 1.73% LIBOR rate for $20.0 million in notional exposure. During Cano's fiscal year ended June 30, 2009, if there had been an increase in the interest rate of 1%, Cano's total interest cost would have increased by $0.3 million annually.

Commodity Risk

Cano's revenues are derived from the sale of its crude oil and natural gas production. The prices for oil and natural gas are extremely volatile and sometimes experience large fluctuations as a result of relatively small changes in supplies, weather conditions, economic conditions and government actions. Pursuant to Cano's senior and subordinated credit agreements discussed in Note 6 to Cano's Consolidated Financial Statements, Cano is required to maintain its existing commodity derivative contracts, all of which have UBNA as Cano's counterparty. Cano has no obligation to enter into commodity derivative contracts in the future. Should Cano choose to enter into commodity derivative contracts to mitigate future price risk, Cano cannot enter into contracts for greater than 85% of its

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crude oil and natural gas production volumes attributable to proved producing reserves for a given month. Therefore, for the hedged production, Cano will receive at least the floor prices. As of June 30, 2009, Cano maintained the following commodity derivative contracts:

Time Period	Floor Oil Price	Ceiling Oil Price	Barrels Per Day	Floor Gas Price	Ceiling Gas Price	Mcf per Day	Barrels of Equivalent Oil per Day
7/1/09 - 12/31/09	$ 80.00	$ 110.90	367	$ 7.75	$ 10.60	1,667	644
7/1/09 - 12/31/09	$ 85.00	$ 104.40	233	$ 8.00	$ 10.15	1,133	422
1/1/10 - 12/31/10	$ 80.00	$ 108.20	333	$ 7.75	$ 9.85	1,567	594
1/1/10 - 12/31/10	$ 85.00	$ 101.50	233	$ 8.00	$ 9.40	1,033	406
1/1/11 - 3/31/11	$ 80.00	$ 107.30	333	$ 7.75	$ 11.60	1,467	578
1/1/11 - 3/31/11	$ 85.00	$ 100.50	200	$ 8.00	$ 11.05	967	361

Assuming that the prices that Cano receives for its crude oil and natural gas production are above the floor prices, based on Cano's actual fiscal year sales volumes for the year ended June 30, 2009, a 10% decline in the prices Cano receives for its crude oil and natural gas production would have had an approximate $2.5 million negative impact on Cano's revenues.

Cano computed its mark-to-market valuations used for its commodity derivatives based on assumptions regarding forward prices, volatility and the time value of money. Cano compared its valuations to its counterparties' valuations to further validate its mark-to-market valuations. During the year ended June 30, 2009, Cano recognized an unrealized gain on commodity derivatives in its consolidated statements of operations amounting to $36.8 million. During the years ended June 30, 2008 and 2007, Cano recognized an unrealized loss on commodity derivatives in its consolidated statements of operations amounting to $29.4 million and $1.8 million, respectively.

If crude oil prices fell $1 below Cano's hedged crude oil price floor, Cano would receive approximately $0.2 million annually due to having the crude oil price floor hedge in place. If natural gas prices fell $1 below Cano's hedged natural gas price floor, Cano would receive approximately $1.1 million annually due to having the natural gas price floor hedge in place.

On September 11, 2009, Cano entered into two fixed price commodity swap contracts with its counterparty Natixis, which is one of Cano's lenders under the senior credit agreement. The fixed price swaps are based on West Texas Intermediate NYMEX prices and are summarized in the table below.

Time Period	Fixed Oil Price	Barrels Per Day
4/1/11 - 12/31/11	$ 75.90	700
1/1/12 - 12/31/12	$ 77.25	700

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CHAPTER IV COMPENSATION DISCUSSION & ANALYSIS OF RESACA

Overview of Resaca Relationship with Torch

Resaca was formed in March 2006 by a group of independent investors led by Torch. From formation through July 31, 2007, Resaca functioned without employees and relied on the employees of Torch to manage the company and operate its properties under an Agreement for Operational, Accounting & Financial Services, which we refer to as the 2007 Services Agreement. On August 1, 2007, Dennis Hammond joined Torch as the President and Chief Operating Officer of Resaca. From that time until December 31, 2008, Mr. Hammond directed Torch employees in their provision of services to Resaca. Torch employees providing services to Resaca are co-employed by Resaca pursuant to the terms of the Co-Employment Agreement.

On January 1, 2009, the 2007 Services Agreement was terminated and Torch employees began providing services to Resaca under the Services Agreement. The Services Agreement eliminated Torch's services as operator of Resaca's properties and provided solely for accounting and administrative services and remains in place. On January 1, 2009, the individuals who had been employed by Torch, but focused exclusively on Resaca, became employees of Resaca. These individuals included all the Torch employees based in Odessa, Texas as well as Mr. Hammond and Robert Porter, currently Resaca's Vice President of Engineering.

After the merger is completed, the combined company may continue to utilize Torch's services under the Services Agreement, but to a lesser degree than prior to the merger. In addition, upon completion of the merger, one or more individuals currently employed by Torch will become employees of the combined company.

The tables included in this Compensation Discussion & Analysis include information for individuals who served as executive officers of Resaca in fiscal 2009, individuals who will serve as executive officers of the combined company after the completion of the merger and Patrick M. McKinney, who, but for the fact that he resigned as Senior Vice President of Engineering and Operations of Cano effective as of May 11, 2010, would have been a Named Executive Officer of the combined company. The executive officers named below are current employees of either Resaca, Torch or Cano and are referred to as the Named Executive Officers.

Named Executive Officers for Resaca Pre-Merger

Name	Current Employer	Current Position	Proposed Post Merger Employer	Post-Merger Position
John J. Lendrum, III	Torch	President and Chief Operating Officer, Torch Chief Executive Officer, Resaca	Torch	President and Chief Operating Officer, Torch Vice Chairman, Resaca
Chris B. Work	Torch	Vice President and Chief Financial Officer, Torch Vice President and Chief Financial Officer, Resaca	Resaca	Senior Vice President and Chief Financial Officer, Resaca
Dennis Hammond	Resaca	President and Chief Operating Officer, Resaca	Resaca	President and Chief Operating Officer, Resaca
Randy Ziebarth	Torch	Vice President Operations, Torch Vice President Operations, Resaca	Torch	Vice President Operations, Torch
Mary Lou Fry	Torch	General Counsel, Vice President and Secretary, Torch General Counsel, Vice President and Secretary, Resaca	Torch	General Counsel, Vice President and Secretary, Torch
Robert Porter	Resaca	Vice President of Engineering, Resaca	Resaca	Vice President of Engineering, Resaca

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Named Executive Officers for Resaca Post-Merger

Name	Current Employer	Current Position	Proposed Post Merger Employer	Post-Merger Position
J.P. Bryan	Torch	Chairman and Chief Executive Officer, Torch Chairman, Resaca	Torch and Resaca	Chairman and Chief Executive Officer, Torch Chairman and Chief Executive Officer, Resaca
Chris B. Work	Torch	Vice President and Chief Financial Officer, Torch Vice President and Chief Financial Officer, Resaca	Resaca	Senior Vice President and Chief Financial Officer, Resaca
Dennis Hammond	Resaca	President and Chief Operating Officer, Resaca	Resaca	President and Chief Operating Officer, Resaca
Patrick M. McKinney(1)	Cano	Senior Vice President of Engineering and Operations, Cano		
Michael J. Ricketts	Cano	Vice President and Principal Accounting Officer, Cano	Resaca	Vice President and Chief Accounting Officer, Resaca
Phillip B. Feiner	Cano	Vice President and General Counsel, Cano	Resaca	Vice President, General Counsel and Corporate Secretary, Resaca

(1) Mr. McKinney tendered his resignation as Senior Vice President of Engineering and Operations of Cano, effective as of May 11, 2010. But for his resignation, Mr. McKinney would have been a Named Executive Officer. Therefore, information on his compensation is included herein, in accordance with Item 402(a)(3)(iv) of Regulation S-K.

Executive Compensation

Compensation Philosophy and Objectives

Through its compensation programs, Resaca seeks to achieve the following general goals:

- attract and retain qualified and productive executive officers and key employees by providing total compensation competitive with that of other executives and key employees employed by companies of similar size, complexity and industry of business;

- encourage its executives and key employees to achieve strong financial and operational performance;

- offer performance-based compensation to create meaningful links between corporate performance, individual performance and financial rewards;

- align the interests of its executives with those of our stockholders by providing a significant portion of total pay in the form of stock-based incentives; and

- encourage long-term commitment to Resaca.

In order to better accomplish the goals of its compensation program, Resaca established the compensation committee of the Resaca board of directors, which we refer to as the Compensation Committee. The Compensation Committee strives to ensure that Resaca's directors and senior executives are fairly compensated for their individual contributions to Resaca's overall performance by determining their pay and prerequisites while giving due regard to the interests of the shareholders and to the financial and commercial health of the company in making such compensation decisions.

In considering compensation levels, the Compensation Committee evaluates both performance and overall compensation. The review of executive officers' performance includes a mix of financial and non-financial measures. In addition to business results, employees are expected to uphold a commitment to integrity, maximize the development of each individual, and continue to improve the environmental quality of Resaca's services and operations.

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Due to the unique nature of Resaca's reliance on certain employees of Torch, the Compensation Committee also reviews data on the amount of time billed by each Torch employee to Resaca and the charges associated with such billings. Under the Services Agreement, Resaca has the right to re-negotiate its service rates with Torch annually.

In order to continue to attract and retain the best employees, the Compensation Committee believes the executive compensation packages provided to Resaca's executives, including the Named Executive Officers, should include both cash and stock-based compensation.

The Compensation Committee has not retained a compensation consultant to review the compensation practices of Resaca's peers or to advise the Compensation Committee on compensation matters.

Both Resaca's Compensation Committee and Chief Executive Officer consider public information regarding the compensation practices of likely competitors when reviewing and setting the compensation of all Resaca officers, including the Named Executive Officers.

Role of Chief Executive Officer in Compensation Decisions

Periodically, Resaca's Chief Executive Officer considers the performance of each of the other Named Executive Officers and makes recommendations to the Compensation Committee with respect to the compensation of the Named Executive Officers, excluding himself. Resaca's Chief Executive Officer considers an individual's contribution and performance, competitive pressures and company performance in making his recommendations to the Compensation Committee. The Compensation Committee may accept, reject or adjust such recommendations in its sole discretion. The Compensation Committee has the sole responsibility for evaluating the compensation of our Chief Executive Officer.

Establishing Executive Compensation

Consistent with its compensation objectives, the Compensation Committee has structured Resaca's annual and long-term incentive-based executive compensation to attract and retain the best talent, reward financial success and closely align executives' interests with Resaca's interests. In setting the compensation, the Compensation Committee reviews total direct compensation for the Named Executive Officers, which includes salary, annual cash incentives and long-term equity incentives. The appropriate level and mix of incentive compensation is not based upon a formula, but is a subjective determination made by the Compensation Committee.

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Elements of Compensation

For fiscal 2009 and prior years, the components of compensation for Resaca's Named Executive Officers included the following:

Element	Form of Compensation	Purpose
Base Salary	Cash	Provide competitive, fixed compensation to attract and retain executive talent.
Short-Term Incentive	Cash Bonus	Create a strong financial incentive for achieving financial success and for the competitive retention of executives.
Long-Term Equity Incentive	Stock Option and Restricted Stock Grants	Provide incentives to strengthen alignment of executive team interests with Company interests, reward long-term achievement and promote executive retention.
Health, Retirement and Other Benefits	Eligibility to participate in plans generally available to our employees, including 401(k); health and life insurance and disability plans	Plans are part of broad-based employee benefits.
Executive Benefits and Perquisites	Club memberships and Parking Subsidy	Provide benefits to promote the health and wellness of employees.

Base Salary

The Compensation Committee believes base salary is a critical element of executive compensation because it provides executives with a base level of monthly income. Resaca does not have a formal salary program with salary grades or salary ranges. Instead, salary increases are awarded periodically based on individual performance, when allowed by economic conditions. The Compensation Committee determines the base salary of each Named Executive Officer based on his or her position and responsibility. For Named Executive Officers other than the Chief Executive Officer, the Compensation Committee also considers the recommendations of the Chief Executive Officer.

Short-Term Incentive Compensation

Resaca's short-term incentive compensation includes periodic cash bonus payments. Resaca's Compensation Committee has established bonus policy guidelines, which we refer to as the Bonus Policy Guidelines. Under the Bonus Policy Guidelines, the Compensation Committee establishes an annual bonus policy, the size of which is determined by management's progress in achieving improved performance in four key areas: production increases, oil and gas reserve increases, operating cost reductions and cash flow increases. Each area for improvement is weighted in importance, with production increases carrying the most weight. The Chief Executive Officer of Resaca then has the discretion to award bonuses from the pool to the Named Executive Officers and other key employees based on performance reviews. The Chief Executive Officer is not eligible to participate in the bonus program. No officer or employee is guaranteed bonus compensation. The Compensation Committee may, at its discretion, reduce the bonus pool in the event of negative safety or environmental incidents.

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Since bonuses under the policy are tied to the referenced performance criteria, conflicts of interest may arise in the preparation by management of financial information and reserve estimations to be used by the Compensation Committee to determine the annual bonus policy. Upon completion of the merger, Resaca intends to adopt several internal control procedures to address this potential for conflicts of interest. For example, upon completion of the merger, Resaca will adopt Cano's policies regarding internal controls over financial reporting, which will require that Resaca's financial statements and reserve estimates be in compliance with SEC rules, regulations and guidance and prepared in accordance with generally accepted accounting principles and SPE Standards. In addition, Resaca will engage independent third party accountants to audit and review its financial statements and engage independent third party petroleum engineers to prepare its reserve estimates. Our Chief Executive Officer, J.P. Bryan, our Chief Financial Officer, Chris Work, and our Chief Accounting Officer, Michael J. Ricketts, will be primarily responsible for overseeing the audit of the financial information used in setting the bonus pool, and our President and Chief Operating Officer, Dennis Hammond, will be primarily responsible for overseeing the preparation of our reserve estimates used in setting the bonus pool. Further, the financial information and reserve estimates to be used in the calculation of the bonus pool will be reviewed by Resaca's independent Audit Committee and Compensation Committee.

Details of bonus payments made to the Named Executive Officers are included in the Summary Compensation table below.

Long-Term Equity Incentive Compensation

Long-term equity incentives encourage participants to focus on long-term performance and provide an opportunity for executive officers and certain designated key officers and employees to increase their stake in Resaca through grants of restricted common stock and stock options. Resaca has made awards of restricted common stock and stock options pursuant to the Incentive Plan. By using a mix of stock options and restricted stock grants, Resaca is able to compensate its Named Executive Officers and key employees for sustained increases in stock performance as well as long-term growth. The Compensation Committee determines whether to grant stock options or restricted stock by weighing the benefits and drawbacks of each type of award against the financial impact of such award on Resaca. Such determination is made at the time of the grant.

Long-term equity incentive compensation is provided by Resaca in addition to base salary and bonus compensation. There is no pre-established policy or target for the allocation between either cash or non-cash or short-term and long-term incentive compensation; however, long-term incentives comprise a large portion of the total compensation package for executive officers and key employees. As reflected in the Summary Compensation Table, the long-term equity incentive compensation received by each of Resaca's Named Executive Officers as a percentage of their respective total compensation during fiscal 2009 was a follows: Mr. Bryan 77%; Mr. Lendrum 92%; Mr. Work 86%; Mr. McKinney 0%; Mr. Ricketts 0%; Mr. Hammond 94%; Ms. Fry 87%; Mr. Ziebarth 87%; Mr. Feiner 0% and Mr. Porter 0%. It is important to note that total compensation for several of the Named Executive Officers above reflects compensation from Torch. Specifically, base salaries for Mr. Bryan, Mr. Lendrum, Mr. Work, Ms. Fry and Mr. Ziebarth were paid by Torch. Base salaries for Mr. Hammond and Mr. Porter were paid by Torch for the July 1, 2008 to December 31, 2008 period and by Resaca for the January 1, 2009 to June 30, 2009 period. Base salaries for Mr. McKinney, Mr. Ricketts and Mr. Feiner were paid by Cano.

For fiscal 2009, Resaca granted two forms of long-term incentives to directors, executive officers and key employees: stock options and restricted common stock. Stock options awarded included both incentive stock options and nonstatutory stock options. Going forward, the combined company will continue to use both stock options and restricted common stock as forms of incentive compensation and may consider other forms of incentive compensation as well, including stock appreciation rights and restricted stock units, all as provided for in the Incentive Plan, as amended by the Incentive Plan

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Amendment. Of all stock option or restricted common stock employee and director awards made by Resaca during fiscal 2009, 29% were in the form of stock options and 71% were in the form of restricted common stock.

The amounts of the stock option and restricted common stock awards made in fiscal 2009 were determined for all recipients, including Named Executive Officers, based on (1) input from Resaca's financial advisors and (2) senior management's perception of the past and likely future contribution of each individual to the success of Resaca.

Specifically, Seymour Pierce, Resaca's nominated advisor and principal advisor in its initial public offering on the AIM, advised that directors, officers and key employees should have a "meaningful" share of ownership of Resaca, but an amount that would not exceed 10% of the total shares outstanding. Thus, the total number of shares made available under the Incentive Plan was initially established at 9,225,874, which was equal to 10% of the shares then expected to be outstanding. Senior management decided to award between 6% and 7% of the equity in Resaca to select directors and officers at the time of the initial public offering so as to meet Seymour Pierce's directive to provide meaningful ownership for management and directors while maintaining the ability to grant additional awards or options in the future and still stay within the suggested 10% limit.

Having established the target 6% - 7% management and director ownership goal, senior management then established the percentages of ownership to be awarded to specific individuals. The restricted common stock and stock option award decisions were based on past business and individual performance, both qualitative and quantitative. Also, senior management considered the grant recipient's expected future performance when determining individual awards.

Resaca has utilized restricted common stock awards to focus executives on long-term performance and to help align executive compensation more directly with shareholder value. Vesting of restricted common stock typically occurs ratably over three years, based solely on continued employment of the recipient-employee. In fiscal 2009, restricted common stock awards were made to a total of ten individuals: J.P. Bryan, two outside directors, one executive director and six officers. The awards covered 4,105,515 shares of common stock. In fiscal 2009, the Named Executive Officers received restricted common stock totaling 3,459,703 shares or 84% of the restricted common stock awarded. The remaining restricted common stock awards were made to outside directors and officers who are not Named Executive Officers.

Under the Incentive Plan, stock options may be granted having exercise prices equal to the closing price of Resaca's stock on the date of the grant. Resaca's stock options generally vest ratably over three years, based on continued employment for the employee-recipient. Prior to the exercise of an option, the holder has no rights as a shareholder with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents. New option grants normally have a term of ten years, unless the grantee owns more than 10% of the outstanding stock of the combined company. In this case, the term of the award shall not exceed five years from the date of the grant.

The purpose of stock options is to provide equity compensation with value that has been traditionally treated as entirely at-risk, based on the increase in our stock price and the creation of shareholder value. Stock options also allow Resaca's directors, executive officers and key employees to have equity ownership and to share in the appreciation of the value of Resaca's stock, thereby aligning their compensation directly with increases in stockholder value. Stock options only have value to their holder if the stock price appreciates in value from the date options are granted.

In fiscal 2009, Resaca awarded 1,756,787 stock options to two individuals: an outside director and an officer. Of the 1,756,787 stock options awarded in fiscal 2009, 81% were awarded to a Named Executive Officer and the remainder were awarded to an outside director.

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Past and expected future business and individual contributions for Named Executive Officers who received equity awards in fiscal 2009 are described below. Resaca's equity awards were determined primarily on the basis of qualitative contributions. Please note that though Messrs. McKinney, Ricketts, Feiner and Porter are Named Executive Officers, none received equity awards from Resaca in fiscal 2009.

J.P. Bryan: Mr. Bryan's equity award was granted to him in his capacity as Chairman of Resaca's board. At that time, it was not contemplated that Mr. Bryan would serve as Chief Executive Officer of the combined company. Mr. Bryan's award of 230,647 restricted shares, representing 0.25% ownership of Resaca, was granted in recognition of his leadership ability and demonstrated previous energy business success. Specifically, as the Chief Executive Officer of Torch, Mr. Bryan led that company's successful management of over $3 billion in energy assets over a 27-year period. Mr. Bryan's experience as a director of other publicly-traded companies, including Bellwether Exploration Company, Nuevo Energy Company, Gulf Canada Resources Limited and AutoNation, Inc. was determined to be illustrative of the type of leadership he could bring to Resaca. Further, Mr. Bryan's key role in bringing together the initial equity investors in the Resaca partnership was crucial to the formation of Resaca.

John J. Lendrum, III: Mr. Lendrum was the visionary and the driving force behind the acquisition of the Resaca properties and the initial formation of Resaca. As President of Torch, Mr. Lendrum negotiated the terms of the acquisition and secured the original financing for the transaction. Post-acquisition, as Chief Executive Officer of Resaca, Mr. Lendrum provided strategic guidance for Resaca and led its initial public offering on the AIM in July 2008. At the time of the fiscal 2009 equity awards, Resaca's compensation committee considered Mr. Lendrum's ability to provide overall strategic guidance and that he would seek out and present attractive growth opportunities for Resaca, particularly acquisitions. In light of those major contributions and in anticipation of future service, the compensation committee elected to award Mr. Lendrum with 922,587 restricted shares of Resaca common stock, representing a 2.5% ownership interest in Resaca.

Chris B. Work: In fiscal 2009, Mr. Work received 461,294 restricted shares of Resaca common stock, which represented 0.50% ownership interest in the company. Mr. Work was a key contributor to the completion of Resaca's initial public offering on the AIM. He produced Resaca's financial reports from 2007 through 2009, managed the company's audits and coordinated the presentation of financial reports in Resaca's initial public offering document. Mr. Work additionally helped to prepare the disclosure in Resaca's initial public offering documents with respect to Resaca's properties and strategy. In addition, as the initial public offering was culminated, Mr. Work assumed an additional investor relations role, fielding questions from Resaca's shareholders. At the time of the awards, senior management anticipated that Mr. Work would continue to contribute in the areas of financial reporting, investor relations and acquisitions. Mr. Work's equity award was determined on the basis of these contributions.

Dennis Hammond: Prior to the initial public offering, Resaca's board determined that the company would benefit from an experienced oil and gas operations and engineering executive. Therefore, Mr. Hammond was hired to become Resaca's President and Chief Operating Officer. To induce Mr. Hammond to join Resaca, its compensation committee awarded Mr. Hammond equity in an amount equal to a 2.5% ownership interest in Resaca. Mr. Hammond's award reflected senior management's confidence in Mr. Hammond's ability to lead Resaca based on his prior operational accomplishments. These include co-founding two successful oil and gas exploitation companies, where Mr. Hammond managed all engineering and operational activities. In addition and prior to this experience, Mr. Hammond managed all exploitation operations for Nuevo Energy Company, a Torch-sponsored company. The compensation committee concluded Mr. Hammond's prior experience would benefit Resaca and that a 2.5% ownership interest was appropriate. Further, the compensation committee reasoned that Mr. Hammond's 2.5% ownership interest would provide powerful incentive for Mr. Hammond to maximize Resaca shareholder value.

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Randy Ziebarth: As Torch's senior operations officer, Mr. Ziebarth supervised the valuation of the Resaca assets at the time of the acquisition in 2006. He conducted extensive analysis on the quality of the reserves, the field infrastructure and the secondary and tertiary recovery potential for the properties. Post-acquisition, as Vice President Operations of Resaca, Mr. Ziebarth managed the operation of the Resaca properties, including developing and supervising all personnel in the field office and making all operational decisions. On the basis of this past business performance and anticipated continuing operational role, the compensation committee granted an equity award to Mr. Ziebarth in an amount equal to a 0.50% ownership interest in Resaca.

Mary Lou Fry: Ms. Fry was integral to the acquisition of the Resaca properties in 2006. As Vice President, General Counsel and Secretary of Torch, she managed the due diligence, negotiation and documentation of both the acquisition and the related financing. Post-acquisition, Ms. Fry managed all legal affairs for Resaca, including acting as Resaca's Corporate Secretary. As Resaca's Vice President, General Counsel and Secretary, Ms. Fry also managed the legal aspects of the initial public offering of Resaca's stock on the AIM. On the basis of these contributions, as well as the understanding that Ms. Fry would continue to perform legal functions on behalf of Resaca, senior management and the compensation committee determined that an equity award of a 0.50% ownership interest for Ms. Fry was appropriate.

Details of all individual restricted common stock and stock option awards made by Resaca in fiscal 2009 follow:

Name	Restricted Common Stock Awarded	Stock Options Awarded	Total Awarded	Awards as % Total Outstanding Shares	Individual Awards as % of Total Awards
J.P. Bryan	230,647	0	230,647	0.25%	3.90%
John J. Lendrum, III	922,587	0	922,587	1.00%	15.70%
Chris B. Work	461,294	0	461,294	0.50%	7.90%
Dennis Hammond	922,587	1,383,881	2,306,468	2.50%	39.30%
Patrick M. McKinney	0	0	0	0.00%	0.00%
Mary Lou Fry	461,294	0	461,294	0.50%	7.90%
Randy Ziebarth	461,294	0	461,294	0.50%	7.90%
Michael J. Ricketts	0	0	0	0.00%	0.00%
Phillip B. Feiner	0	0	0	0.00%	0.00%
Robert Porter	0	0	0	0.00%	0.00%
Other Directors and Officers	645,812	372,906	1,018,718	1.10%	17.40%
Grand Totals	4,105,515	1,756,787	5,862,302	6.35%	100.00%

The Compensation Committee of the combined company intends to review both the annual incentive compensation program and the long-term incentive program annually to ensure that the program's key elements continue to meet the objectives described above.

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Grants of Plan-Based Awards During Fiscal 2009

Shown in the table below are the restricted stock and stock option grants to acquire Resaca common stock or Cano common stock made during Resaca's and Cano's fiscal year 2009 to the Named Executive Officers.

Grants of Plan Based Awards During Fiscal 2009

Name	Compensation Committee or Board of Directors Approval Date	Grant Date	All Other Stock Awards: Number of Shares of Stock	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards(a)	Grant Date Fair Value of Stock and Option Awards
J.P. Bryan	07/11/2008	07/17/2008	230,647			$ 618,999
John J. Lendrum, III	07/11/2008	07/17/2008	922,587			$ 2,475,995
Chris B. Work	07/11/2008	07/17/2008	461,294			$ 1,237,999
Dennis Hammond	07/11/2008	07/17/2008	922,587			$ 2,475,995
	07/11/2008	07/17/2008		1,383,881	£1.30	$ 1,477,732
Patrick M. McKinney						$
Randy Ziebarth	07/11/2008	07/17/2008	461,294			$ 1,237,999
Mary Lou Fry	07/11/2008	07/17/2008	461,294			$ 1,237,999
Michael J. Ricketts						$
Phillip B. Feiner						$
Robert Porter						$

(a) The exercise price is equal to the offering price of Resaca common stock to the public in Resaca's initial public offering on AIM completed on July 17, 2008.

Outstanding Equity Awards at June 30, 2009

The following table summarizes the total outstanding equity awards as of June 30, 2009 for each Named Executive Officer. The market value of the stock awards was based on the closing price of £0.26 per share for Resaca common stock which is $0.43 per share assuming an exchange rate of USD/GBP of $1.65872 per £1.00, and $0.95 per share for Cano common stock.

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Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable(a)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercisable Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares of Stock That Have not Vested(b)	Market Value of Shares of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested
J.P. Bryan						230,647	$ 99,178		
John J. Lendrum, III						922,587	$ 396,712		
Chris B. Work						461,294	$ 198,356		
Dennis Hammond		1,383,881		£1.30	07/17/2016	922,587	$ 396,712		
Patrick M. McKinney	33,334	16,666		$ 5.42	12/28/2016	156,667	$ 148,834		
Randy Ziebarth						461,294	$ 198,356		
Mary Lou Fry						461,294	$ 198,356		
Michael J. Ricketts	26,666	13,334		$ 5.42	12/28/2016	40,000	$ 38,000		
Phillip B. Feiner	3,333	6,667		$ 5.75	02/19/18	20,000	$ 19,000		
		12,000		$ 6.15	06/30/17				
Robert Porter							$		

(a)

The following table provides the vesting dates as of June 30, 2009 for unvested stock options:

Vesting Date	Dennis Hammond	Patrick M. McKinney	Michael J. Ricketts	Phillip B. Feiner
07/17/2009	461,294			
12/28/2009		16,667	13,334	
2/19/2010				3,333
06/30/2010				12,000
07/17/2010	461,294			
02/19/2011				3,334
07/17/2011	461,293			

(b)

The following table provides the vesting dates as of June 30, 2009 for unvested restricted shares:

Vesting Date	J.P. Bryan	John J. Lendrum, III	Chris B. Work	Dennis Hammond	Patrick M. McKinney	Randy Ziebarth	Mary Lou Fry	Michael J. Ricketts	Phillip B Feiner	Robert Porter
07/17/2009	76,882	307,529	153,765	307,529		153,765	153,765			
07/02/2009					38,333			10,000		
05/12/2010					40,000			10,000	10,000	
07/02/2010					38,334			10,000		
07/17/2010	76,882	307,529	153,765	307,529		153,765	153,765			
05/12/2011					40,000			10,000	10,000	
07/17/2011	76,883	307,529	153,764	307,529		153,764	153,764			
Total Unvested Stock Awards	**230,647**	**922,587**	**461,294**	**922,587**	**156,667**	**461,294**	**461,294**	**40,000**	**20,000**	

The Compensation Committee recommends to the board of directors the equity awards to be made to each Named Executive Officer or other officer or employee prior to the grant of such equity awards by the board of directors. Grants of equity may be made at any time during the year. We do not time the release of material non-public information with the purpose of affecting the value of executive compensation.

Stock Plan. Resaca adopted the Incentive Plan on July 10, 2008. The Incentive Plan initially provided 9,225,874 shares of authorized but unissued shares of Resaca common stock to be awarded to Resaca's officers, directors, employees and consultants. Awards under the Incentive Plan can be made in various forms, including stock options, stock appreciation rights or restricted common stock grants. Stock option grant prices awarded under the Incentive Plan may not be less than the fair market value of the common stock subject to such option on the grant date, and the term of stock options may extend no more than ten years after the grant date. The Compensation Committee selects the officers, employees and consultants to whom the awards will be granted and determines the number and type of awards to be granted to such individual. Resaca's board of directors selects the non-employee directors to whom awards will be granted and determines the number and type of award to be granted to such individuals. All of Resaca's employees, non-employee directors and consultants are eligible to receive awards under the Incentive Plan. The Incentive Plan has a term of ten years from the date of stockholder approval such that it expires on July 10, 2018. If Resaca shareholders approve the Incentive Plan Amendment, the Merger and Share Issuances and the Reverse Stock Split, then the number of shares of Resaca common stock authorized for issuance under the Incentive Plan will be increased, simultaneously with the merger and following the Reverse Stock Split, by 4,000,000 shares for a total of 5,845,175 shares available for issuance, subject to any shares previously granted, under the Incentive Plan.

Health, Retirement and Other Benefits

401(k) Plan. Effective January 1, 2009, Resaca initiated a 401(k) plan as part of its employee benefits package in order to retain quality personnel. This is a tax-qualified retirement savings plan under which all employees, including the Named Executive Officers who are employees of Resaca, are able to contribute to the plan the lesser of 60% of their annual salary and the limits prescribed by the Internal Revenue Service on a before-tax basis. Currently, Resaca matches 50% of employee contributions up to a maximum of 6% of the participant's gross salary, or as much as 3% of the participant's gross salary if the participant is contributing at least 6%. Resaca's matching contributions for all of its employees between January 1, 2009 and June 30, 2009 were approximately $17,736. All employee contributions to the plan are fully vested upon contribution; matching employer contributions vest over a six-year period of continuous service: 20% after two years, 40% after three years, 60% after four years, 80% after five years and 100% after six years.

Health and Life. Throughout the period from January 1, 2009 to December 31, 2009, Resaca purchased health insurance and other benefits programs on behalf of employees from The Guardian. Under these programs, Resaca offered major medical, dental, vision, life and accidental death and dismemberment insurance to all employees. Resaca also provided short term and long term disability benefits to employees, as well as up to ten days of sick pay as needed. The life insurance offered by Resaca was in amounts equal to up to two times annual earnings, subject to a $200,000 maximum and with limitations based on age. The short term disability program provided employees with a percentage of their normal earnings based upon tenure for a period of up to 180 days, subject to an elimination period. The long term disability program offered employees a benefit equal to 60% of monthly earnings subject to a maximum of $10,500 per month.

For the period from January 1, 2010 to December 31, 2010, Resaca employees are offered benefits through Administaff, Inc., a professional employer organization, which we refer to as Administaff. These benefits include major medical, dental, vision, life and accidental death and dismemberment insurance benefits as well as disability benefits. In addition, Resaca offers eleven paid holidays per year and up to ten paid sick days per year. The life insurance benefits offered through the Administaff program are up to $50,000 per person. The disability program offers employees up to 60% of income (subject to a $10,000 per month maximum).

Administaff does not provide services to well service workers. Therefore, effective January 1, 2010, nine individuals who are well service workers and former employees of Resaca, became employees of ROC. ROC employees are offered major medical, dental, vision, life and accidental death and dismemberment insurance as well as disability insurance. ROC employees are entitled to eleven paid holidays per year and up to ten paid sick days per year. The life insurance benefits offered to ROC employees are for an amount up to $50,000 with limitations based on age. The disability program offers employees up to 60% of income (subject to a $6,000 per month maximum).

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Perquisites

Resaca provides its employees with perquisites that are believed to be reasonable and consistent with the overall compensation program, to better enable Resaca to attract and retain superior employees for key positions, and to promote positive employee morale. The perquisites offered to Houston-based Resaca employees include a $113 per month transportation subsidy to be used to defray the cost of parking or pay for monthly bus fare and a 50% subsidy of the dues for a local club membership.

Director Compensation

Each Resaca non-employee director receives annual compensation of $50,000, paid on a quarterly basis. In addition, on July 17, 2008, each director received a grant of either restricted common stock or stock options. Those shares and options vest over a three-year period. One third of these restricted shares and options vested on July 17, 2009. See the table below for additional information. We also reimburse the reasonable expenses incurred by our directors in attending meetings and other company business.

Directors who are also full-time officers of Resaca receive no additional compensation for serving as directors. Currently, one member of the Resaca board of directors, John J. Lendrum, III, is also an executive officer of Resaca. Mr. Lendrum is an employee of Torch providing services to Resaca under the Services Agreement.

Name	Fees Earned or Paid in Cash ($)	Stock Awards(1) ($)	Option Awards ($)	Grant Date Fair Market Value	Total ($)
Judy Ley Allen	$ 50,000	$ 618,999		$ 618,999	$ 668,999
John William Sharp Bentley	$ 50,000		$ 344,805	$ 344,805	$ 394,805
J.P. Bryan	$ 50,000	$ 618,999		$ 618,999	$ 668,999
Richard Kelly Plato	$ 50,000	$ 618,999		$ 618,999	$ 668,999

(1) Aggregate Stock Awards and Option Awards Outstanding at the end of fiscal 2009:

Name	Date of Award	# Shares	# Options	Vesting Date
Judy Ley Allen	07/17/08	76,882		07/17/09
	07/17/08	76,882		07/17/10
	07/17/08	76,883		07/17/11
John William Sharp Bentley	07/17/08		107,635	07/17/09
	07/17/08		107,635	07/17/10
	07/17/08		107,636	07/17/11
J.P. Bryan	07/17/08	76,882		07/17/09
	07/17/08	76,882		07/17/10
	07/17/08	76,883		07/17/11
Richard Kelly Plato	07/17/08	76,882		07/17/09
	07/17/08	76,882		07/17/10
	07/17/08	76,883		07/17/11

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COMPENSATION COMMITTEE REPORT

To the Stockholders of Resaca Exploitation, Inc.:

The Compensation Committee of the board of directors has reviewed and discussed the *Compensation Discussion & Analysis*, above, with management. Based on this review and discussion, the Compensation Committee recommended to the board of directors that the *Compensation Discussion & Analysis* be included in this proxy statement for the fiscal year ended June 30, 2009 and the six month period ended December 31, 2009.

May 28, 2010

Compensation Committee

Judy Ley Allen
J.P. Bryan
John William Sharp Bentley

EXECUTIVE COMPENSATION

The following narrative, tables and footnotes describe the "total compensation" earned during fiscal 2009, 2008 and 2007 by the combined company's Named Executive Officers. The individual components of the total compensation reflected in the Summary Compensation Table are broken out below:

Salary The table reflects base salary earned during each of the relevant fiscal years. See "Compensation Discussion & Analysis Elements of Compensation Base Salary." Please note that several of the Named Executive Officers were employees of either Torch or Cano prior to the merger. Torch provides management services to Resaca under the Services Agreement. See "Compensation Discussion & Analysis Overview of Resaca Relationship with Torch."

Bonus The table reflects cash bonus payments made to the Named Executive Officers in each of the relevant fiscal years. See "Compensation Discussion & Analysis Elements of Compensation Short-Term Incentive Compensation." Please note that Resaca has not paid bonus compensation to Named Executive Officers; those Named Executive Officers who received bonus pay were and are Torch employees. See "Compensation Discussion & Analysis Overview of Resaca Relationship with Torch." Bonus payments made to Mr. McKinney, Mr. Ricketts and Mr. Feiner were paid by Cano.

Stock Awards Details of Resaca's stock and option awards can be found in "Compensation Discussion & Analysis Elements of Compensation Long-Term Incentive Compensation." As the first vesting date for stock and options awarded did not occur until after the end of fiscal 2009, the Named Executive Officers who were employees of Torch or Reseca did not earn additional compensation from stock options or restricted common stock in fiscal 2007, 2008 or 2009. Stock awards made to Mr. McKinney, Mr. Ricketts and Mr. Feiner were made by Cano.

All Other Compensation See "Compensation Discussion & Analysis Health, Retirement and Other Benefits" and "Compensation Discussion & Analysis Perquisites."

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Summary Compensation Table

The following table summarizes the total compensation awarded to, earned by or paid to the Named Executive Officers. This table and the accompanying narrative should be read in conjunction with the Compensation Discussion & Analysis, which sets forth the objectives and other information regarding our executive compensation program.

Name and Principal Position (a)	Year	Salary(b)	Bonus	Stock Awards(c)	Option Awards(d)	Non-Equity Incentive Plan Compensation	All Other Compensation(e)	Total
J.P. Bryan,	2009	$ 178,750	$	$ 618,999	$	$	$ 7,194	$ 804,943
Chairman of the	2008	$ 250,000	$	$	$	$	$ 8,544	$ 258,544
Board(f)	2007	$ 250,000	$	$	$	$	$ 5,731	$ 255,731
John J. Lendrum, III								
	2009	$ 200,000	$	$ 2,475,995	$	$	$ 6,509	$ 2,682,504
Vice Chairman and	2008	$ 185,417	$	$	$	$	$ 6,424	$ 191,841
Chief Executive	2007	$ 175,000	$	$	$	$	$ 5,225	$ 180,225
Officer(g)								
Chris B. Work,								
	2009	$ 190,000	$	$ 1,237,999	$	$	$ 6,817	$ 1,434,816
Vice President and	2008	$ 148,333	$ 40,000	$	$	$	$ 5,381	$ 193,714
Chief Financial	2007	$ 52,500	$ 10,000	$	$	$	$ 2,279	$ 64,779
Officer(h)								
Dennis Hammond,								
	2009	$ 250,000	$	$ 2,475,995	$ 1,477,732	$	$ 8,866	$ 4,212,593
President and Chief	2008	$ 229,167	$	$	$	$	$ 7,493	$ 236,660
Operating Officer(i)	2007	$	$	$	$	$	$	$
Patrick M. McKinney,								
	2009	$ 250,000	$	$	$	$ 50,000	$ 14,399	$ 314,399
Senior Vice President of	2008	$ 250,000	$	$ 1,535,600	$	$ 16,212	$ 1,385	$ 1,803,197
Engineering and	2007	$ 194,375	$ 150,000	$	$ 127,000	$	$	$ 471,375
Operations(j)								
Randy Ziebarth,								
	2009	$ 175,000	$	$ 1,237,999	$	$	$ 6,821	$ 1,419,820
Vice President	2008	$ 160,417	$ 50,000	$	$	$	$ 8,039	$ 218,456
Operations(k)	2007	$ 150,000	$	$	$	$	$ 6,459	$ 156,459
Mary Lou Fry,								
	2009	$ 175,000	$	$ 1,237,999	$	$	$ 6,786	$ 1,419,785
Vice President,	2008	$ 154,583	$ 50,000	$	$	$	$ 7,851	$ 212,434
General Counsel, and	2007	$ 140,000	$	$	$	$	$ 6,173	$ 146,173
Secretary(l)								
Michael J. Ricketts,								
	2009	$ 187,000	$	$	$	$ 25,000	$ 11,433	$ 223,433
Vice President and	2008	$ 187,000	$	$ 391,000	$	$ 30,000	$ 748	$ 608,748
Principal								
Accounting Officer(m)	2007	$ 175,000	$ 93,000	$	$ 101,600	$	$	$ 369,600
Phillip B. Feiner								
	2009	$ 150,000		$	$	$ 25,000	$ 1,503	$ 176,503
Vice President and	2008	$ 143,118	$ 23,000	$ 216,000	$ 26,700	$ 10,000		$ 418,818
General counsel(n)	2007				32,160			32,160
Robert Porter,								
	2009	$ 152,127	$	$	$	$	$ 1,017	$ 153,144
Vice President of	2008	$	$	$	$	$	$	$
Engineering(o)	2007	$	$	$	$	$	$	$

(a) Name and principal position with Resaca or Cano, as applicable, prior to completion of the merger.

(b) Salary and Bonus information included herein reflects salary and bonus amounts paid to the listed individual by his or her employer for the relevant fiscal year. The employer of Messrs. Bryan, Lendrum, Work, and Ziebarth and Ms. Fry was Torch. The employer of Messrs. Hammond and Porter was Resaca. The employer of Messrs. McKinney, Ricketts and Feiner was Cano.

(c) Amounts reported reflect the grant date fair value dollar amounts for financial statement reporting purposes in fiscal 2009, 2008 and 2007 in accordance with ASC Topic 718), "Share Based Payment" and includes awards granted in prior periods. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. The restricted stock granted to Messrs. McKinney, Ricketts and Feiner was granted under the Cano 2005 Long-Term Incentive Plan. The restricted stock granted to Messrs. Bryan, Lendrum, Work, Hammond and Ziebarth and Ms. Fry was granted under the Incentive Plan. In both cases, the ultimate amount realized may be significantly more or less than the amount shown depending on the price of Resaca common stock or Cano common stock as applicable at the time of vesting or the time of sale of the restricted stock.

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(d) Amounts reported reflect the grant date fair value dollar amounts for financial statement reporting purposes in fiscal 2009, 2008 and 2007 in accordance with ASC Topic 718, "Share Based Payment" and includes awards granted in prior periods. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Stock options granted to Messrs. McKinney, Ricketts and Feiner were granted under the Cano 2005 Long-Term Incentive Plan. Stock options granted to Mr. Hammond were granted under the Incentive Plan. In both cases, the ultimate amount realized may be significantly more or less than the amount shown depending on the price of Resaca's and/or Cano's common stock at the time of exercise.

(e) For Messrs. Bryan, Lendrum, Work, Hammond, Ziebarth and Porter and Ms. Fry, "All Other Compensation" consists of the total of parking allowances and Resaca 401(k) contributions. For Messrs. McKinney, Rickets and Feiner, "All Other Compensation" consists of Cano 401(k) contributions.

(f) Following the completion of the merger, Mr. Bryan will serve as Chairman of the Board and Chief Executive Officer of Resaca.

(g) Following the completion of the merger, Mr. Lendrum will serve as Vice Chairman of the Board of Resaca.

(h) Mr. Work began employment with Torch in February 2007, so his compensation for fiscal year 2007 reflects a partial year. Following the completion of the merger, Mr. Work will serve as Senior Vice President and Chief Financial Officer of Resaca.

(i) Mr. Hammond became a Torch employee dedicated to working on Resaca matters in August of 2007, so he did not receive any compensation from either Torch or Resaca in Resaca's fiscal year 2007. His compensation in Resaca's fiscal year 2008 was from Torch. Mr. Hammond became a Resaca employee on January 1, 2009. Therefore, his fiscal 2009 compensation includes amounts paid by Torch (for the period from July 1, 2008 to December 31, 2008) and amounts paid by Resaca (for the period from January 1, 2009 to June 30, 2009). Following the completion of the merger, Mr. Hammond will serve as President and Chief Operating Officer of Resaca.

(j) Compensation amounts disclosed herein were paid to Mr. McKinney by Cano. Mr. McKinney tendered his resignation as the Senior Vice President of Engineering and Operations of Cano, effective as of May 11, 2010.

(k) Following the completion of the merger, Mr. Ziebarth will not serve as an officer of Resaca and Mr. Ziebarth will continue to be co-employed by Torch and Resaca.

(l) Following the completion of the merger, Ms. Fry will not serve as an officer of Resaca and Ms. Fry will continue to be co-employed by Torch and Resaca.

(m) Compensation amounts disclosed herein were paid to Mr. Ricketts by Cano. Following the completion of the merger, Mr. Ricketts will be employed by Resaca as Vice President and Chief Accounting Officer.

(n) Compensation amounts disclosed herein were paid to Mr. Feiner by Cano. Following the completion of the merger, Mr. Feiner will serve as Vice President, General Counsel and Corporate Secretary of Resaca.

(o) Robert Porter joined Torch in 2008 as Vice President of Engineering for Resaca. He became a full time Resaca employee on January 1, 2009. Following the completion of the merger, Mr. Porter will serve as Vice President of Engineering.

Pension Benefits

Resaca's only retirement plan for employees, including the Named Executive Officers, is Resaca's 401(k) plan. Resaca does not have a pension plan in which the Named Executive Officers, or any other officers or employees, are eligible to participate.

Non-Qualified Deferred Compensation

Resaca does not have a non-qualified deferred compensation plan.

Potential Payments Upon a Change of Control or Termination

Resaca has only entered into one employment contract. Resaca entered into an Amended and Restated Employment Agreement with Dennis Hammond, President and Chief Operating Officer of Resaca and Torch, effective as of January 1, 2009, which we refer to as the Hammond Employment Agreement. Under the terms of the Hammond Employment Agreement, Mr. Hammond, Resaca and Torch mutually agree that Mr. Hammond shall serve as President and Chief Operating Officer of Resaca in return for certain compensation, including (1) a base salary of $250,000 per year, (2) benefits in accordance with Resaca's health and other benefits programs and (3) 1,383,881 stock options and 922,587 shares of restricted common stock. In addition, the Hammond Employment Agreement

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provides that Mr. Hammond shall be eligible to receive additional compensation as determined by the board of the combined company. The Hammond Employment Agreement terminates on August 1, 2010.

The Hammond Employment Agreement provides that if Resaca terminates the Hammond Employment Agreement for any reason other than for cause or due to Mr. Hammond's death or disability, Resaca is required to pay Mr. Hammond his base salary for the remaining term under the Hammond Employment Agreement, or until August 1, 2010. The Hammond Employment Agreement does not provide for immediate vesting of restricted stock or stock options in the event of termination by Resaca. The table below quantifies the amounts that would be due to Mr. Hammond under the Hammond Employment Agreement in the event of an early termination:

Termination Month	**Months Remaining**	**Gross Pay Due Mr. Hammond**
02/01/10	6	$ 125,000.00
03/01/10	5	$ 104,166.67
04/01/10	4	$ 83,333.33
05/01/10	3	$ 62,500.00
06/01/10	2	$ 41,666.67
07/01/10	1	$ 20,833.33
08/01/10 and beyond	0	$

The Incentive Plan calls for accelerated vesting of stock or option awards in the event of a change of control and the award agreements under the Incentive Plan call for accelerated vesting upon termination of employment, as described below. However, the Incentive Plan also provides that the Resaca board of directors may override this provision if it is in the best interest of Resaca. The board of directors has chosen to override the change of control provision of the Incentive Plan with respect to the merger. Since Mr. Plato will no longer serve as a director of Resaca following the completion of the merger, his options to purchase Resaca common stock will vest in full upon the completion of the merger.

In the event of a "change of control," (a) all of the stock options and stock appreciation rights then outstanding shall become 100% vested and immediately exercisable; (b) all of the restrictions and conditions of any restricted stock awards, restricted stock units and any other stock based awards then outstanding shall be deemed satisfied, and the restriction period with respect thereto shall be deemed to have expired, and thus each incentive award shall become free of all restrictions and fully vested; and (c) all of the performance-based awards shall become fully vested, deemed earned in full, and promptly paid within thirty (30) days to the affected grantees without regard to payment schedules and notwithstanding that the applicable payment cycle, retention cycle, or other restrictions and conditions have not been completed or satisfied.

The Incentive Plan defines a "change of control" as (a) acquisition of 50% or more of the voting stock of the company; (b) occurring when the current board members no longer constitute a majority on the board; (c) approval by the shareholders of a merger; (d) the sale of substantially all of the assets of the company; or (e) the adoption of a plan or proposal to liquidate the company's assets.

If a change in control or termination of employment as described above were to have occurred as of June 30, 2009, shares of restricted stock and options held by our Named Executive Officers would have automatically vested, as follows:

Mr. Bryan held 230,647 shares of restricted stock that would have become fully vested as a result of such change in control. One third of these restricted shares vested in accordance with the vesting schedule on July 17, 2009;

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Mr. Lendrum held 922,587 shares of restricted stock that would have become fully vested as a result of such change in control. One third of these restricted shares vested in accordance with the vesting schedule on July 17, 2009;

Mr. Work held 461,294 shares of restricted stock that would have become fully vested as a result of such change in control. One third of these restricted shares vested in accordance with the vesting schedule on July 17, 2009;

Mr. Hammond held 922,587 shares of restricted stock, 116,550 incentive stock options and 1,267,331 non-qualifying stock options that would have become fully vested as a result of such change in control. One third of these restricted shares and options vested in accordance with the vesting schedule on July 17, 2009; and

Ms. Fry held 461,294 shares of restricted stock that would have become fully vested as a result of such change in control. One third of these restricted shares vested in accordance with the vesting schedule on July 17, 2009.

As of September 25, 2009, Mr. Porter held 320,000 non-qualifying stock options that would have become fully vested as a result of such change in control.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the fiscal year ended June 30, 2009, our Compensation Committee was composed of Messrs. Allen, Bryan and Bentley. No member of the Compensation Committee was an officer or employee of Resaca during such fiscal year. None of our executive officers served on the board of directors or the compensation committee of any other entity for which any officers of such other entity served either on our board of directors or our Compensation Committee, with the exception of Mr. Lendrum and Mr. Bryan. Mr. Lendrum was, and is, an executive officer of Resaca as its Chief Executive Officer and he sits on the board of directors of Torch. Mr. Bryan was, and is, an executive officer of Torch as its Chief Executive Officer and he sits on the board of directors and the compensation committee of Resaca. In connection with the merger, Mr. Lendrum will resign as Chief Executive Officer of Resaca and will no longer serve Resaca as an executive officer. Mr. Bryan will serve, post merger, as an executive officer of both Torch and Resaca. The combined company will designate the members of its board committees immediately following the completion of the merger and each committee will be reconstituted. As such, it is contemplated that the Compensation Committee of Resaca will be reconstituted upon the trading of Resaca common stock on NYSE Amex and again post-merger and Mr. Bryan will not continue to serve as a member of this committee. While Resaca has not determined which directors will serve on its Board committees at this time, pursuant to the terms of the merger agreement, during the one year period following the consummation of the merger, each committee shall consist of four directors, at least two of whom will be directors who served on Cano's board of directors prior to the consummation of the merger.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Transactions with related persons are reviewed, approved or ratified in accordance with the policies and procedures set forth in Resaca's Employee Handbook, Audit Committee charter, the procedures described below with respect to director and officer questionnaires and the other procedures described below.

Resaca's code of ethics and business conduct provides that directors, officers, and employees must avoid any action that may involve, or may appear to involve conflicts of interest with regard to the combined company. Exceptions may only be made after review of fully disclosed information and approval of specific or general categories by senior management (in the case of employees) or the board of directors (in the case of officers or directors). Any employee, officer or director who becomes aware of a conflict or potential conflict of interest should bring the matter to the attention of a supervisor or other appropriate personnel.

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A conflict of interest exists when a person's private interest interferes in any way with the interests of the combined company. Conflicts of interest generally interfere with the person's effective and objective performance of his or her duties or responsibilities to the combined company. Our code of business ethics and conduct sets forth several examples of how conflicts of interest may arise, including when:

- Employment by a competitor, or potential competitor, regardless of the nature of the employment, while employed by the combined company;
- Acceptance of gifts, payment, or services from those seeking to do business with the combined company;
- Placement of business with a firm owned or controlled by an officer, director, employee, or his/her family;
- Ownership of, or substantial interest in, a company that is a competitor, client or supplier.
- Acting as a consultant to a customer, client or supplier;
- Seeking the services or advice of an accountant or attorney who has provided services to the combined company;
- Officers, directors and employees are under a continuing obligation to disclose any situation that presents the possibility of a conflict or disparity of interest between the officer, director or employee and the combined company; and
- Disclosure of any potential conflict is the key to remaining in full compliance with this policy.

Resaca's audit committee also has the responsibility, according to its charter, to review, assess and approve or disapprove conflicts of interest and related-party transactions.

Each year Resaca requires all directors, nominees for director and executive officers to complete and sign a questionnaire in connection with the solicitation of proxies for use at the annual general meeting of members. The purpose of the questionnaire is to obtain information, including information regarding transactions with related persons, for inclusion in Resaca's proxy statement or annual report.

Rig Acquisition

The Transaction

In July 2009, Resaca announced that it had reached agreement with PBWS to acquire a number of workover rigs, reversing units and related assets as well as real estate. Pursuant to the terms of the asset transfer agreement between Resaca and PBWS, Resaca acquired Equipment and the Office Space. In December 2009, Resaca vacated its prior offices and moved into the Office Space. Since Resaca's formation in 2006, PBWS had provided approximately 40%-60% of Resaca's workover and reversing unit services. These services were provided to Resaca on a priority basis, and the hourly rates were charged in accordance with industry rates. Resaca concluded, however, that there were economic and operational benefits to be gained from owning and operating the Equipment and owning the Office Space.

Related Persons and the Interests of Related Persons in the Transaction

Torch E&P was issued 3,320,250 shares of Resaca common stock under the terms of the asset transfer agreement entered into by Resaca and PBWS. Torch E&P is a shareholder of Resaca and the parent company of PBWS. Torch E&P is 90%-owned by J.P. Bryan, Resaca's Chairman of the board of directors and 10%-owned by John J. Lendrum, III, Resaca's Chief Executive Officer. At the request of PBWS, the shares issued pursuant to the asset transfer agreement were issued directly to Torch E&P.

Value of the Transaction

The assets acquired by Resaca pursuant to the asset transfer agreement were valued by two independent appraisers, an equipment specialist and a real estate specialist. The value ascribed to the assets by the independent appraiser was $1,593,720. Resaca paid consideration of $1,593,720 for the assets in the form of 3,320,250 new shares of Resaca common stock issued by Resaca for this purpose and representing 3.5% of the enlarged issued share capital of Resaca. The number of shares of Resaca common stock issued to Torch E&P was determined by dividing the purchase price by $0.48, which reflects the July 6, 2009 closing stock price on the AIM of £0.295 per share, converted at an exchange rate of U.S. $1.627 per British pound. The July 6, 2009 price reflects an approximate 12% premium over the trailing 30 day share price. As a 90% owner of Torch E&P, Mr. Bryan's interest in the consideration paid by Resaca for the Rig Acquisition is $1,434,348 and as a 10% owner of Torch E&P, Mr. Lendrum's interest in the consideration paid by Resaca for the Rig Acquisition is $159,372.

Other Information

The asset transfer agreement requires the ratification of the Rig Acquisition by Resaca's shareholders. On July 6, 2009, the transaction was approved by an independent committee of the Resaca board of directors, which was comprised of Judy Ley Allen, Richard Kelly Plato, and John William Sharp Bentley.

The Services Agreement

The Transaction

Since its formation Resaca has had the Services Agreement, as amended, with Torch and TES. On January 1, 2009, Resaca entered into the Services Agreement with Torch and TES. Under the Services Agreement, Torch and TES provide a variety of corporate services to Resaca including office administration, risk management, corporate secretarial support, legal services, corporate and litigation legal services, graphic services, tax department services, financial planning and analysis, information management, financial reporting and accounting services, and engineering and technical services as well as office space and office support for Resaca's employees in Houston. In addition, TES makes certain of the vehicles in its fleet available to Resaca. Resaca pays a per mile rate for the use of these vehicles. Resaca pays a monthly fee to Torch and TES for services rendered and for the use of TES vehicles.

Related Persons and the Interests of Related Persons in the Transaction

Both Torch and TES are owned by J.P Bryan, Resaca's Chairman of the Board and John J. Lendrum, III, Resaca's Chief Executive Officer. Messrs. Bryan and Lendrum own 90% and 10% ownership interests, respectively, in Torch and TES. As such, Messrs. Bryan and Lendrum have a 90% and 10% interest, respectively, in all fees paid to Torch and TES pursuant to the Services Agreement. The shareholders of Resaca approved the Services Agreement, as amended, at a special meeting on June 4, 2008.

Value of the Transaction

From January 1, 2009 to June 30, 2009, Resaca paid $657,389 to Torch and TES for services and vehicle use provided pursuant to the Services Agreement.

Torch Subordination Letter Agreement

Resaca entered into an agreement with Torch on May 14, 2010 which requires that on June 30, 2010, unless the CIT Facility has been repaid in full or refinanced, all amounts that Resaca owes to Torch at such time under the Services Agreement will be evidenced by a written promissory note payable to Torch. As of March 31, 2010, Resaca owes Torch $1,755,647 under the Services Agreement. Interest on such promissory note will accrue at the prime rate announced from time to time by Amegy

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Bank N.A. plus 2.0%, which is the same rate of interest that Torch may apply to all over due amounts under the terms of the Services Agreement. All principal and accrued interest on the promissory note will be due and payable at maturity on October 1, 2012 (or, if earlier, two business days after the CIT Facility is repaid from the proceeds of an issuance of Resaca equity or 91 days after the CIT Facility is refinanced or repaid with funds from any other sources). Such promissory note will also be subordinated to all amounts that Resaca owes under the CIT Facility.

Other

On October 20, 2009, Cano entered into a Stock Voting Agreement with S. Jeffrey Johnson, its Chief Executive Officer and Chairman of its board of directors, which provides, among other things, that Mr. Johnson will vote all of his shares of Cano stock in favor of the Series D Amendment. Mr. Johnson owns approximately 3.6% of the Cano preferred stock. During the nine months ended March 31, 2010, Cano paid Mr. Johnson a cash preferred dividend payment of approximately $59,000.

Policies Related to Related Party Transactions

At such time as the combined company becomes subject to SEC rules and regulations or the NYSE Amex Company Guide, the "Approval of Related Party Transactions" section of the Audit Committee's charter shall become applicable. The combined company shall not enter into a related party transaction unless such transaction is reviewed for potential conflicts of interest by the Audit Committee and is approved by the Audit Committee. Under the Audit Committee charter, a transaction will be considered a "related party transaction" if the transaction would be required to be disclosed under Item 404 of Regulation S-K. The related party transactions described in this section occurred prior to adoption of these policies, and as such, these transactions were not subject to the approval and review procedures described above, although the Rig Acquisition and the Services Agreement were approved by our board in a manner consistent with the Audit Committee's charter.

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EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes certain information regarding securities authorized for issuance under Resaca's equity compensation plans as of May 28, 2010, prior to effectuating the Incentive Plan Amendment, the merger and the Reverse Stock Split.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted-Average Exercise Price of Outstanding Options(1) (b)	Number of Securities to be Issued Upon Vesting of Outstanding Restricted Shares (c)	Number Of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a) and (c))(2) (d)
Equity Compensation Plans Approved By Security Holders	2,301,787	$ 1.66	2,737,010	2,818,572
Equity Compensation Plans Not Approved By Security Holders	NA	NA	NA	NA
Total	**2,301,787**	**$ 1.66**	**2,737,010**	**2,818,572**

(1) Weighted Average price of outstanding options as of May 28, 2010 is calculated as follows:

Grant Date	No. Options	Exercise Price ($)
07/17/2008	1,706,787	$ 1.98
09/25/2009	395,000	$ 0.76
11/16/2009	200,000	$ 0.71
Weighted Average Exercise Price Per Share		$ 1.66

(2) The Incentive Plan initially made 9,225,874 shares available for incentive compensation. As of May 28, 2010, 4,105,515 had been awarded in restricted stock (1,368,505 of which have vested) and 2,301,787 had been awarded in stock options leaving 2,818,572 shares available in for future issuance.

Indemnification of Directors and Officers

Resaca's charter provides that Resaca shall indemnify any person who was, is or is threatened to be made a party to a proceeding (as hereinafter defined) by reason of the fact that he or she (1) is or was a director or officer of Resaca or (2) while a director or officer of Resaca, is or was serving at the request of Resaca as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of any foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, to the fullest extent permitted under the TBOC as the same exists or may hereafter be amended. Notwithstanding the foregoing, Resaca shall indemnify any such person in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board. Such rights shall be contract rights and as such shall run to the benefit of any director or officer who is elected and accepts the position of the director or officer of Resaca or elects to continue to serve as a director or officer of Resaca while this provision of the certificate of formation is in effect. Any repeal or amendment of this provision of the certificate of formation shall be prospective only and shall not limit the rights of any such director or officer or the obligations of Resaca with respect to any claim arising from or related to the services of such director or officer in any of the foregoing capacities prior to any such repeal or amendment. Such right shall include the right to be paid by Resaca expenses incurred in defending any such proceeding in advance of its final disposition to the maximum extent permitted under the TBOC.

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If a claim for indemnification or advancement of expenses hereunder is not paid in full by Resaca within sixty (60) days after a written claim has been received by Resaca, the claimant may at any time thereafter bring suit against Resaca to recover the unpaid amount of the claim, and if successful in whole or in part, the claimant shall also be entitled to be paid the expenses of prosecuting such claim. It shall be a defense to any such action that such indemnification or advancement of costs of defense are not permitted under the TBOC, but the burden of proving such defense shall be on Resaca. Neither the failure of Resaca (including the Board or any committee thereof, independent legal counsel, or stockholders) to have made its determination prior to the commencement of such action that indemnification of, or advancement of costs of defense to, the claimant, is permissible in the circumstances nor an actual determination by Resaca (including the Board or any committee thereof, independent legal counsel, or stockholders) that such indemnification or advancement is not permissible shall be a defense to the action or create a presumption that such indemnification by Resaca is not permissible. In the event of the death of any person having rights of indemnification, such rights shall inure to the benefit of his or her heirs, executors, administrators and personal representatives. These rights shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, bylaw, resolution of stockholders or directors, agreement or otherwise. The Company may additionally indemnify any employee or agent of Resaca to the fullest extent permitted by law. As used herein, the term "proceeding" means any threatened pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, arbitrative or investigative, any appeal in such an action, suit, or proceeding, and any inquiry or investigation that could lead to such an action, suit or proceeding.

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COMPARISON OF STOCKHOLDER RETURN

The following graph compares the cumulative total stockholder return on Resaca common stock with the cumulative total return of a peer group consisting of: (i) Cano Petroleum, Inc., listed on NYSE Amex under the symbol "CFW"; (ii) Warren Resources, Inc., listed on NASDAQ under the symbol "WRES"; (iii) Ram Energy Resources, Inc., listed on NASDAQ under the symbol "RAME"; (iv) Parallel Petroleum Corporation, listed on NASDAQ under the symbol "PLLL"; (v) Arena Resources Inc., listed on NYSE under the symbol "ARD"; and (vi) Abraxas Petroleum Corp., listed on NASDAQ under the symbol "(AXAS); and the NYSE Amex Oil Index.

The graph covers the period from July 17, 2008, the date Resaca common stock started trading, through May 28, 2010, and assumes that $100 was invested on July 17, 2008, and any dividends were reinvested. No dividends have been declared or paid on Resaca's common stock. Stockholder returns over the period indicated should not be considered indicative of future stockholder returns. The information contained in the Performance Graph shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that Resaca specifically incorporates it by reference into such filing.

Comparison of Cumulative Return among
Resaca Exploitation, Inc.,
Peer Group and NYSE Amex Oil Index

ASSUMES $100 INVESTED ON JULY 17, 2008
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING JUNE 30, 2009

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of Resaca common stock on a fully-diluted basis, as of May 28, 2010, after giving effect to the Reverse Stock Split and the Rig Acquisition (assuming ownership of Resaca common stock is unchanged since May 28, 2010) but not giving effect to the merger or the issuance of Resaca common stock and Resaca preferred stock in conjunction with the merger, both by:

- each director, director nominee and executive officer;
- all executive officers, director nominees and directors of Resaca as a group; and
- each person known by us to own beneficially more than 5% of the outstanding shares of Resaca common stock as of May 28, 2010.

Beneficial ownership has been determined in accordance with applicable SEC rules, under which a person is deemed to be the beneficial owner of securities if he or she has or shares voting power or investment power with respect to such securities or has the right to acquire beneficial ownership within 60 days of May 28, 2010. Percentage of ownership is based on 19,503,285 shares of Resaca common stock outstanding on May 28, 2010, assuming the exercise of all outstanding stock options of Resaca totaling 113,786 options. Unless otherwise indicated, to the knowledge of Resaca, the persons listed in the table below have sole voting and investment powers with respect to the shares indicated. The address of Resaca directors and officers is 1331 Lamar, Suite 1450, Houston, Texas 77010.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Ownership
Torch E&P Company(1) 1331 Lamar Suite 1450 Houston, Texas 77010	3,212,455	16.5%
Legal & General Investment Management Bucklersbury House London EC4N 8NH	2,067,844	10.6%
Asset Value Investors Bennett House London SW1A 1JT	1,453,437	7.5%
NGP Capital Resources Company 1221 McKinney Street Suite 2975 Houston, Texas 77010 Attn. R. Kelly Plato	1,330,220	6.8%
SDG Holdings LLC 1803 E. Pavilion Place Montrose, Colorado 81401	1,024,556	5.3%
Goodman & Company Investment Counsel Scotia Plaza Toronto, Ontario M5H 4A9 Canada	1,000,000	5.1%
J.P. Bryan(2)(4) *Chairman of the Board and Director*	3,570,047	18.3%

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Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Ownership
Dennis Hammond	154,204**	*
President and Chief Operating Officer		
John J. Lendrum, III(4)	113,499	*
Chief Executive Officer and Director		
Randy Ziebarth	24,153	*
Vice President		
John William Sharp Bentley	21,527**	*
Director		
Chris B. Work	21,033	*
Vice President and Chief Financial Officer		
Judy Ley Allen	15,376	*
Director		
Mary Lou Fry	7,845	*
Vice President, General Counsel and Secretary		
Lisa Cohen(4)	6,150	*
Vice President and Treasurer		
Ralph Carthrae(4)	4,132	*
Vice President Marketing of Resaca		
Richard Kelly Plato(3)	46,129	*
Director		
All Officers and Directors as a group***	3,984,095	20.4%

*
Less than 1%

**
This amount includes stock options.

***
All titles for the Officers and Directors are presented on a pre-merger basis.

(1)
The 3,212,455 shares owned by Torch E&P Company are also reflected in the share holdings of J.P. Bryan.

(2)
The beneficial ownership of the following shares of Resaca common stock are attributable to Mr. Bryan: (i) 136,628 shares owned by Mary Jon Bryan, spouse of Mr. Bryan; (ii) an aggregate of 24,000 shares owned collectively by Adeline James, Eloise James, Josephine James, Bryan James, Ava Leigh Bryan and Gwyneth Bryan, all members of Mr. Bryan's family; (iii) 3,212,455 shares owned by Torch E & P Company (including 664,050 shares issued in the Rig Acquisition); (iv) 181,588 shares personally owned by Mr. Bryan; and (v) vested restricted shares totalling 15,376 shares.

(3)
Prior to the closing of the merger, Mr. Plato was issued 46,129 shares of restricted shares of Resaca common stock, of which 15,376 shares vested on July 17, 2009 and 30,753 shares will vest in full upon the completion of the merger. Once the merger is finalized, Mr. Plato will resign from Resaca's board of directors.

(4)
As a result of the Reverse Stock Split, each such shareholder will be entitled to the number of post-split shares of Resaca common stock reflected in this column plus cash consideration for such shareholder's fractional shares not reflected herein.

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