

CANO PETROLEUM, INC.
COMPENSATION COMMITTEE CHARTER

This Compensation Committee Charter (the “Charter”) sets forth the purpose and membership requirements of the Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) and establishes the authority and responsibilities delegated to it by the Board.

1. **Purpose.** The purpose of the Committee is to assist the Board in the discharge of its fiduciary responsibilities relating to the fair and competitive compensation of the Company’s Chief Executive Officer (“CEO”) and the Company’s other executive officers.
2. **Committee Members.**
 - 2.1. **Composition and Appointment.** The Committee shall consist of three or more members of the Board that meet the independence requirements specified in Section 2.2. below. The Board shall appoint the members and the Chairperson of the Committee on the recommendation of the Nominating Committee. Membership on the Committee shall rotate at the Board’s discretion. The Board shall fill vacancies on the Committee and may remove a Committee member from the membership of the Committee at any time without cause.
 - 2.2. **Independence.** Each member of the Committee must (i) be a “non-employee director,” as such term is defined in Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or any successor provision thereto, and (ii) meet the independence requirements of the American Stock Exchange (“AMEX”) and applicable state and federal law, including the rules and regulations of the Securities and Exchange Commission (“SEC”).
3. **Subcommittees.** The Committee shall have the authority to delegate authority and responsibilities to subcommittees, so long as no subcommittee consists of less than two members.
4. **Advisors.** The Committee shall have the authority to (i) retain, at the Company’s expense, an independent compensation consultant and other expert advisors (“Advisors”) as it deems necessary to fulfill its responsibilities and (ii) determine, on behalf of the Company, the compensation of such Advisors.
5. **Executive Compensation.**
 - 5.1. **Compensation Philosophy and Strategy.** The Committee shall review the compensation philosophy and strategy of the Company and its subsidiaries regarding the role of the Company’s compensation strategy in achieving the Company’s objectives and performance goals and the long-term interests of the Company’s stockholders.
 - 5.2. **Comparison Analysis.** The Committee shall annually review market and industry data to assess the Company’s competitive position with respect to the individual elements of total executive compensation to ensure the attraction, retention and appropriate reward of the Company’s CEO and the Company’s other executive officers.
 - 5.3. **Executive Compensation.** The Committee shall annually review and make recommendations to the Board with respect to the base salary, incentive compensation, deferred compensation, stock options, performance units and other equity based awards for the CEO and all other executive officers. The CEO may not be present during voting or deliberations with respect to his or her compensation.

- 5.4. **Administration of Plans.** Consistent with Section 5.3. above, the Committee shall administer the Company's incentive compensation and stock option and other equity based plans (including specific provisions thereof) in which the CEO and other executive officers may be participants and recommend to the Board amendments to such plans or adoption of new plans. In connection with administering such plans, the Committee shall have the authority to (i) approve option guidelines and general size of overall grants, (ii) make grants, (iii) interpret the plans, (iv) determine the rules and regulations relating to the plans, (v) modify or cancel existing grants and substitute new grants (with the consent of grantees), (vi) designate employees eligible to participate in the plans, and (vii) impose limitations, restrictions and conditions upon any award as the Committee deems appropriate and as permitted under the applicable plan.
6. **Special Recommendations to the Board.** The Committee shall review and make recommendations to the Board regarding (i) any employment agreement, severance agreement, change in control agreement or provision, or separation agreement, or any amendment to the same, that is proposed to be entered into with the CEO and any other executive officers; (ii) any deferred compensation arrangement or retirement plan or benefits that are proposed to be entered into with the CEO and any other executive officers; and (iii) the benefits and prerequisites offered to the CEO and any other executive officers.
7. **Director Compensation Oversight.**
- 7.1. **Review of Director Compensation.** The Committee shall annually review and make recommendations to the Board regarding the compensation paid to the Company's directors. Such review shall include any fees paid for attendance at meetings of the Board and any of its committees and grants of stock options or stock.
- 7.2. **Compliance With Restrictions.** The Committee shall monitor the amount of compensation proposed to be paid to any director for compliance with the Company's equity compensation plans. In addition, the Committee shall monitor the effect that compensation proposed to be paid to a director will have on the director's ability to be considered "independent" under the requirements of the AMEX and applicable federal securities laws, including the rules and regulations of the SEC. The Committee shall advise the Board if any compensation proposed to be paid to a director would violate the Company's equity compensation plans or have an undesirable impact on the director's independence. In fulfilling its responsibilities hereunder, the Committee shall give due consideration to the different definitions of "independent" that apply to the Board and its different committees and any requirement that the Board or a Board committee contain a majority of, or be entirely composed of, "independent" directors.
8. **Meetings.**
- 8.1. **Frequency of Meetings.** The Committee shall meet at least two times per fiscal year. The schedule for regular meetings of the Committee shall be established by the Committee. The Chairperson of the Committee may call a special meeting at any time as he or she deems advisable.
- 8.2. **Minutes.** Minutes of each meeting of the Committee shall be kept to document the discharge by the Committee of its responsibilities.
- 8.3. **Presiding Officer.** The Chairperson of the Committee shall preside at all Committee meetings. If the Chairperson is absent at a meeting, a majority of the Committee members present at a meeting shall appoint a different presiding officer for that meeting.

9. **Reports and Assessments.**

- 9.1. **Board Reports.** The Chairperson of the Committee shall report from time to time to the Board on Committee actions and on the fulfillment of the Committee's responsibilities under this Charter.
- 9.2. **Charter Assessment.** The Committee shall annually assess, with the assistance of management and the Company's outside law firm, the adequacy of this Charter.
- 9.3. **Annual Report on Compensation.** The Committee shall annually advise the Board as to whether the Company's CEO and director compensation arrangements are appropriate. The Committee shall consult with the CEO to annually advise the Board as to whether the Company's other executive officer compensation arrangements are appropriate.