

BEFORE THE
STATE OF WISCONSIN
DEPARTMENT OF FINANCIAL INSTITUTIONS
DIVISION OF SECURITIES

In the Matter of
CANO ENERGY CORPORATION,
STEVEN JEFFREY JOHNSON a/k/a
S. JEFF JOHNSON a/k/a JEFF JOHNSON,
and WILLIAM PAUL HUDSON,

PETITION FOR ORDER

Respondents.

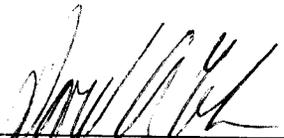
File No. S-03268(EX)

The staff of the State of Wisconsin Department of Financial Institutions, Division of Securities, Bureau of Registration & Enforcement has conducted an investigation in this matter pursuant to sec. 551.56, Wis. Stats., and as a result thereof alleges as follows:

1. Cano Energy Corporation ("Cano") is a foreign business entity with a last known business address of 309 W. 7th St., Ste. 1600, Ft. Worth, TX 76102.
2. Steven Jeffrey Johnson a/k/a S. Jeff Johnson a/k/a Jeff Johnson (DOB 12/26/64; CRD #1900419) ("Johnson") is an individual who at all times material hereto has been President of Cano, with a last known business address at that of Cano.
3. William Paul Hudson (DOB 3/18/68; CRD #4597939) ("Hudson") is an individual who at all times material hereto has been an agent of Cano and Johnson, with a last known business address at that of Cano.
4. During the period of December, 2003, Hudson, on behalf of Cano and Johnson, offered to at least one person in Wisconsin the opportunity to invest in an oil and gas well drilling venture of Cano.
5. The person in Wisconsin referred to above had no preexisting relationship with any of the Respondents.
6. Upon information and belief, investors can play a passive role in the company with no duties and responsibilities.
7. Upon information and belief, each investor will not be involved in the day-to-day management of the oil and gas well drilling ventures of Cano, since there are too many investors for them to each have any meaningful input, and they do not have the expertise or experience necessary to perform its duties.
8. Since the investors will be involved in a *common enterprise with the expectation of profits to be derived from the essential managerial efforts* of others, the investments offered by the respondents are investment contracts as defined by section DFI-Sec. 1.02(6)(a), Wis. Adm. Code, and are therefore securities as defined by sec. 551.02(13), Wis. Stats.

9. The Cano investment contracts have never been registered for offer and sale in Wisconsin pursuant to Ch. 551, Wis. Stats.
10. All Respondents have violated sec. 551.21(1), Wis. Stats., by offering unregistered securities in Wisconsin.
11. In connection with the offers of the securities described above, Hudson transacted business in Wisconsin as an "agent" for Cano and Johnson, as that term is defined by sec. 551.02(2), Wis. Stats.
12. At no time has Hudson been licensed as a securities agent pursuant to Ch. 551, Wis. Stats.
13. Hudson has violated sec. 551.31(1), Wis. Stats., by transacting business in Wisconsin as a securities agent without a license.
14. Cano has violated sec. 551.31(2), Wis. Stats., by employing an unlicensed agent to represent them in Wisconsin.
15. On September 2, 2003, the State of Texas issued an administrative order against Hudson, based on allegations of securities law violations.
16. In connection with the offer of the securities described in Paragraph 4, the Respondents omitted to disclose the issuance of the order referred to in Paragraph 15.
17. Hudson has violated sec. 551.41(2), Wis. Stats., by omitting to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, in connection with the offer and sale of securities to persons in Wisconsin.

Therefore, the staff of the Bureau of Registration & Enforcement petitions the Administrator of the Division of Securities for the issuance of the attached Order pursuant to Ch. 551, Wis. Stats.

 9/6/05

David A. Cohen Date
Supervising Attorney
Bureau of Registration & Enforcement