

CASTLEGUARD ENERGY INC
Form 10QSB
November 12, 2004

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

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

COMMISSION FILE NUMBER: 0-5525

CASTLEGUARD ENERGY, INC.

(Exact name of Registrant as specified in its charter)

Florida
(State or other jurisdiction of
of incorporation or organization)

75-2789691
(I.R.S. Employer
Identification No.)

17768 Preston Road, Dallas, Texas
(Address of principal executive offices)

75252
(Zip Code)

(214) 647-2110

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock Without Par Value

(Title of Class)

YES NO

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Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

At September 30, 2004, there were 17,364,626 Common shares outstanding.

Transitional Small Business Disclosure Format (check one): Yes [] No [X]

CASTLEGUARD ENERGY, INC.

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PART I.

Item 1. FINANCIAL STATEMENTS

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S REPORT

Board of Directors
Castleguard Energy, Inc.

We have reviewed the accompanying balance sheet of Castleguard Energy, Inc. as of September 30, 2004, and the related statements of income, cash flows and stockholders' equity for the three-month and nine-month

periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the Public Company Accounting Oversight Board. A review of interim financial information consists principally of analytical procedures applied to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards established by the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Whitley Penn

Dallas, Texas
November 9, 2004

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CASTLEGUARD ENERGY, INC.

BALANCE SHEETS

	September 30, 2004 <u>(Unaudited)</u>	December 31, 2003 <u>(Audited)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 51,603	\$ 9,501
	<u>92,019</u>	<u>2,319</u>
Accounts receivable		

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Total current assets	143,622	11,820
Petroleum and natural gas interests, net	1,272,863	1,191,324
	<u> </u>	<u> 6,766</u>
Deferred debt issue costs, net		
	<u>1,416,485</u>	<u>1,209,910</u>
TOTAL ASSETS	\$	\$
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 121,690	\$ 74,455
	<u>90,000</u>	<u>130,002</u>
Current portion of long-term debt		
Total current liabilities	211,690	204,457
Long-term debt, less current portion	119,999	18,997
	<u>71,962</u>	<u>47,042</u>
Deferred income taxes		
	<u>422,651</u>	<u>270,496</u>
TOTAL LIABILITIES		
Stockholders' equity:		
Common stock, \$0.001 par value, 50,000,000 shares authorized; 19,226,626 shares issued; 17,364,626 outstanding	19,227	19,227
Paid-in capital	965,826	965,826
	<u>64,781</u>	<u>10,361</u>
Retained earnings	1,049,834	995,414
	<u>(56,000)</u>	<u>(56,000)</u>
Treasury stock, 1,862,000 shares at cost))
	<u>993,834</u>	<u>939,414</u>
Total stockholders' equity		
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ <u>1,416,485</u>	\$ <u>1,209,910</u>

See accompanying notes to financial statements.

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CASTLEGUARD ENERGY, INC.

STATEMENTS OF INCOME

(Unaudited)

	Three months ended <u>September 30,</u> <u>2004</u>	Three months ended <u>September 30,</u> <u>2003</u>	Nine months ended <u>September 30,</u> <u>2004</u>	Nine months ended <u>September 30,</u> <u>2003</u>
Oil and gas sales	\$ <u>105,489</u>	\$ <u>99,943</u>	\$ <u>272,587</u>	\$ <u>409,319</u>
Expenses:				
Lease operating expense and taxes	15,886	22,726	46,301	67,914
Depreciation, depletion and amortization	12,768	16,679	37,321	63,782
General and administrative	<u>28,277</u>		<u>90,391</u>	<u>107,491</u>
		<u>31,123</u>		
	<u>56,931</u>		<u>174,013</u>	<u>239,187</u>
		<u>70,528</u>		
Income from operations	48,558	29,415	98,574	170,132
Interest and financing costs	<u>3,134</u>	<u>5,300</u>	<u>16,106</u>	<u>19,367</u>
Income before income taxes	45,424	24,115	82,468	150,765
Provision for income taxes	<u>14,120</u>	<u>7,300</u>	<u>28,047</u>	<u>46,800</u>
Net income	\$ <u>31,304</u>	\$	\$ <u>54,421</u>	\$ <u>103,965</u>
		<u>16,815</u>		

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Basic and diluted earnings per common share	\$ <u> .00</u>	\$ <u> .00</u>	\$ <u> .00</u>	\$ <u> .01</u>
Weighted average number of common shares outstanding (Thousands)	<u> 17,365</u>	<u> 17,365</u>	<u> 17,365</u>	<u> 17,365</u>

See accompanying notes to financial statements.

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CASTLEGUARD ENERGY INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	<u>2004</u>	<u>2003</u>
Cash Flows from Operating Activities:		
Net income	\$ 54,421	\$ 103,965
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	37,321	63,782
Deferred income taxes	24,920	46,800
Amortization of financing costs	6,766	8,699
Change in assets and liabilities:		
Accounts receivable, accounts payable and accrued liabilities	<u>(42,465)</u>	<u>(126,022)</u>
))
Net cash provided by operating activities	<u>80,963</u>	<u>97,224</u>
Cash Flows from Investing Activities:		
Additions to petroleum and natural gas interests	(118,861)	(49,565)

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Proceeds from sale of petroleum and natural gas interests	_____	<u>104,803</u>
Net cash provided by (used in) investing activities	<u>(118,861)</u>	<u>55,238</u>
)	
Cash Flows from Financing Activities:		
Proceeds from borrowings	80,000	
Payments on long-term debt	_____	<u>(245,003)</u>
)
Net cash provided by (used in) financing activities	<u>80,000</u>	<u>(245,003)</u>
)
Net increase (decrease) in cash and cash equivalents	42,102	(92,541)
Cash and cash equivalents, beginning of period	<u>9,501</u>	<u>126,823</u>
Cash and cash equivalents, end of period	\$ <u>51,603</u>	\$ <u>34,282</u>
Supplemental information:		
Interest paid	\$ 9,341	\$ 10,668

See accompanying notes to financial statements.

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CASTLEGUARD ENERGY, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited for 2004 first nine months)

Total

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	<u>Common Stock</u>		<u>Paid-in</u>	<u>Treasury</u>	<u>Retained</u>	<u>Stockholders'</u>
	<u>Shares</u>	<u>Amount</u>				
Balance, December 31, 2002	19,226,626	\$ 19,227	\$ 965,826	\$ (56,000)	\$ 132,902	\$ 1,061,955
Net loss 2003	_____	_____	_____	_____	<u>(122,541)</u>	<u>(122,541)</u>
))	
Balance, December 31, 2003	19,226,626	19,227	965,826	(56,000)	10,361	939,414
Net income, first nine months, 2004	_____	_____	_____	_____	<u>54,421</u>	<u>54,421</u>
Balance, September 30, 2004	<u>19,226,626</u>	<u>\$ 19,227</u>	<u>\$ 965,826</u>	<u>\$ (56,000)</u>	<u>\$ 64,781</u>	<u>\$ 993,834</u>

See accompanying notes to financial statements.

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CASTLEGUARD ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies and Practices

(a) Description of Business

Castleguard Energy, Inc. (the "Company") is an independent energy company engaged in the exploration for and the acquisition, development and exploitation of crude oil and natural gas properties, and in the production of crude oil and natural gas in North America through working interests operated by other parties. The Company's activities are conducted in the states of Louisiana, Texas and Alabama. The Company's corporate offices are located in Dallas, Texas.

(b) Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. They do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the financial statements for the year ended December 31, 2003 included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10-KSB. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the nine months ended

September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

(c) Net Income per Weighted Average Share

Basic net income per weighted average share is calculated using the weighted average number of shares of common stock outstanding.

(d) Oil and Gas Sales

Petroleum and natural gas sales are recognized upon delivery to the metered point upstream of the pipeline connection.

Note 2 - Long-Term Debt

In October 2003, the Company entered into a revised debt agreement with a commercial bank. The agreement provides for a \$2,000,000 term note with an initial borrowing base of \$322,333 which is reduced at the rate of \$21,667 per month. Principal payments of \$21,667 per month are due when the amounts outstanding on this note exceed the borrowing base. At September 30, 2004, the borrowing base was less than the outstanding note balance. Interest is payable monthly at the bank's prime rate (4.0% at September 30, 2004) plus .75 percent. The note is collateralized by all of the Company's oil and gas properties. Debt covenants restrict other debt, pledge of assets, sales of assets, payment of dividends, mergers and changes in ownership.

In March 2004, June 2004 and August 2004, the Company extended until October 2004 the due date of principal payments which were required by the agreement and reduced such payments to \$7,500 monthly, plus interest, until December 2005, when they will increase to \$10,000 monthly, plus interest.

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CASTLEGUARD ENERGY, INC

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-QSB includes "forward-looking" statements within the meaning of Section 27a of the Securities Act of 1933, as amended (the "Securities Act"), and section 21e of the Securities Exchange Act of 1934, as amended (the "exchange act"). Specifically, all statements other than statements of historical facts included in this report regarding Castleguard Energy Inc.'s financial position, business strategy and plans and objectives of management of the Company for future operations are forward- looking statements. These forward-looking statements are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or Company management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions related to certain factors including, without limitation, price levels for oil and natural gas, concentration of oil and natural gas reserves and

production, drilling risks, uncertainty of oil and gas reserves, risks associated with the development of additional revenues and with the acquisition of oil and gas properties and other energy assets, operating hazards and uninsured risks, general economic conditions, governmental regulation, changes in industry practices, marketing risks, one time events and other factors described herein ("cautionary statements"). Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the applicable cautionary statements. Reference is made to disclosure regarding "Forward-Looking Statements and Cautionary Statements" included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003, which is incorporated herein by reference.

The Company is an independent oil and gas exploration company whose strategic focus is the application of advanced seismic imaging and computer-aided exploration technologies in the systematic search for commercial hydrocarbon reserves, primarily in the states of Texas and Louisiana. The Company attempts to leverage its technical experience and expertise with seismic technology to identify exploration and exploitation projects with significant potential economic return. The company intends to participate in selected exploration projects as a non-operating, working interest owner, sharing both risk and rewards with its partners. The Company has and will continue to pursue exploration opportunities in regions where the Company believes significant opportunity for discovery of oil and gas exists. By reducing drilling risk through seismic technology, the Company seeks to improve the expected return on investment in its oil and gas exploration projects. The Company attempts to limit capital requirements by forming industry alliances and exchanges a portion of its interest for cash and/or a carried interest in its exploration projects.

RESULTS OF OPERATIONS

Three Month Periods Ended September 30, 2004 vs. 2003

Third quarter 2004 (this year) net income rose 86% to \$31,304 (\$.00 per share) from \$16,815 (\$.00 per share) in the third quarter of 2003 (last year) as the result of higher prices for natural gas and crude oil, slightly offset by lower oil volumes. Natural gas sales volumes were 14,057 mcf this year versus 14,151 mcf last year and oil production declined 403 barrels to 497 barrels.

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Total expenses declined 19% following the decline in volumes of oil, including and reflecting a continuation of management's efforts to minimize overhead costs.

Nine Month Periods Ended September 30, 2004 vs. 2003

Nine months net income 2004 (this year) of \$54,421 was 48% lower compared to last years of \$103,965 as a result of lower volumes of hydrocarbons produced and sold, slightly offset by higher prices for oil.

Gas volumes this year were 35,077 mcf down from 53,096 mcf last year. Oil volumes declined from 3,095 barrels in the first nine months of last year to 1,730 barrels this year. Prices for oil were 24% higher this year versus last but gas prices were essentially unchanged. Average natural gas prices were \$5.95 per mcf compared to \$5.96 per mcf last year; average oil prices of \$29.73 per barrel last year rose to \$36.91 per barrel this year.

Operating expenses followed the down trend in production volumes and declined compared to last year. General and administrative was lower by 16% and interest cost was down 17% compared to last year from a combination of rates and debt balances.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations for the first nine months of 2004 produced approximately \$81,000 in cash flow after changes in working capital and another \$80,000 was generated by borrowings against the Company's debt arrangement. Cash generated was used for costs of a new well and workovers of existing producing wells. The company has entered into an agreement with its lender to extend the time for principal reductions on its debt. Reductions of \$7,500 per month will be made beginning October 1, 2004. Future cash flow from existing producing wells will influence the direction of future financings and any further new activities by the Company.

Item 3. CONTROLS AND PROCEDURES

- (a) Evaluation of disclosure controls and procedures.

The President/Secretary/Treasurer/Director of the Company has conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based upon that evaluation, the President/Secretary/Treasurer/Director concluded that the Company's disclosure controls and procedures were effective in ensuring that all material information relating to the Company required to be filed in this quarterly report has been made known to them in a timely manner.

- (b) Changes in internal controls.

There have been no significant changes made in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the end of the period covered by this report.

Part II. Other Information

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits -

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K -

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CASTLEGUARD ENERGY, INC.

November 12, 2004

/s/ Harvey Jury

By: Harvey Jury, Director and President

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Exhibit Index

- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

