CASTLEGUARD ENERGY INC
Form 10QSB
November 13, 2003

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

FORM 10-QSB

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

For the Quarterly Period Ended September 30, 2003

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	75-2789691
(State or other jurisdiction of of incorporation or organization)	(I.R.S. Employer Identification No.)
4625 Greenville Avenue, Suite 203, Dallas, TX	75206
(Address of principal executive offices)	(Zip Code)

(214) 361-1755
(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)

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. YES [X] NO [ ]

At September 30, 2003, 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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Signature

PART I.

Item 1. FINANCIAL STATEMENTS

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors
Castleguard Energy, Inc.

We have reviewed the accompanying balance sheet of Castleguard Energy, Inc. as of September 30, 2003, and the related statements of income; and cash flows and stockholders' equity for the three 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 American Institute of Certified Public Accountants. 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 generally accepted in the United States of America, 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 reviews, 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.

Whitley Penn

Dallas, Texas
November 11, 2003

CASTLEGUARD ENERGY, INC.

BALANCE SHEETS

	September 30, 2003 (Unaudited)	December 31, 2002 (Audited)
ASSETS		
Current assets:		
Cash	$ 34,282	$ 126,823
	109,270	66,719
Accounts receivable		
Total current assets	143,552	193,542
Petroleum and natural gas interests, net	1,357,671	1,476,692
	9,665	18,363
Deferred debt issue cost, net		
	1,510,888	1,688,597
TOTAL ASSETS	$	$

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued liabilities	$ 40,068	$ 123,539
	150,666	260,004
Current portion of long-term debt		
Total current liabilities	190,734	383,543
Long-term debt, less current portion		135,665
	154,234	107,434
Deferred income taxes		
	344,968	626,642
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
	236,867	132,902
Retained earnings		
	1,221,920	1,117,955
	(56,000	(56,000
Treasury stock, 1,862,000 shares at cost	)	)
	1,165,920	1,061,955
Total stockholders' equity		
	1,510,888	1,688,597
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$	$

CASTLEGUARD ENERGY, INC.

STATEMENTS OF INCOME

(Unaudited)

	Three months ended September 30, 2003	Three months ended September 30, 2002	Nine months ended September 30, 2003	Nine months ended September 30, 2002
Oil and gas sales	$ 99,943	$ 204,541	$ 409,319	$ 559,878
Expenses:				
Lease operating expense and taxes	22,726	35,541	67,914	96,180
Depreciation, depletion and amortization	16,679	54,747	63,782	173,404
General and administrative	31,123	27,714	107,491	122,280
	70,528	118,002	239,187	391,864
Income from operations	29,415	86,539	170,132	168,014
Interest and financing costs	5,300	10,007	19,367	28,688
Income before income taxes	24,115	76,532	150,765	139,326
Provision for income taxes	7,300	22,800	46,800	41,800
Net income	$ 16,815	$ 53,732	$ 103,965	$ 97,526
Basic and diluted earnings per common share	$ .00	$ .00	$ .01	$ .01
Weighted average number of common shares outstanding (Thousands)	17,365	17,284	17,365	17,244

CASTLEGUARD ENERGY INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2003	2002
Cash Flows from Operating Activities:		
Net income	$ 103,965	$ 97,526
Adjustments to reconcile net income to net cash		
Provided by operating activities:		
Depreciation, depletion and amortization	63,782	173,404
Deferred income taxes	46,800	42,834
Amortization of financing costs	8,699	7,732
Change in assets and liabilities:		
Accounts receivable, accounts payable and accrued liabilities	(126,022)	(47,675)
Net cash provided by operating activities	97,224	273,821
Cash Flows from Investing Activities:		
Additions to petroleum and natural gas interests	(49,565)	(135,180)
Proceeds from sale of petroleum and natural gas interests	104,803	6,671
Net cash provided by (used in) investing activities	55,238	(128,509)
Cash Flows from Financing Activities:		
Refinancing of bank loan		583,343
Payments on long-term debt	(245,003)	(757,084)
Net cash used in financing activities	(245,003)	(173,741)
Net decrease in cash	(92,541)	(28,429)
Cash, beginning of period	126,823	99,979

Cash, end of period	$ 34,282	$ 71,550
Supplemental information:		
Interest paid	$ 10,668	$ 21,237

CASTLEGUARD ENERGY, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited for year 2003 first nine months)

	Common Stock		Paid-in	Treasury	Retained	Total Stockholders'
	Shares	Amount	Capital	Stock	Earnings	Equity
Balance, December 31, 2001	19,013,626	$ 19,014	$ 958,643	$ (56,000)	$ 26,973	$ 948,630
Issuance of stock To settle litigation and other	213,000	213	7,183			7,396
Net income					105,929	105,929
Balance, December 31, 2002	19,226,626	19,227	965,826	(56,000)	132,902	1,061,955
Net income					103,965	103,965
Balance, September 30, 2003	19,226,626	$ 19,227	$ 965,826	$ (56,000)	$ 236,867	$ 1,165,920

CASTLEGUARD ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 1 - Summary of Significant Accounting Policies and Practices

(a) Description of Business

Castleguard Energy, Inc. 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.

(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, 2002 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, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

(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

Effective October 28, 2003, Castleguard negotiated with a commercial bank an increase in its borrowing base to $322,333, which will reduce at $21,667 a month. Principal payments will be required only when the amount outstanding equals the borrowing base. Maturity is approximately 15 months. Interest is payable monthly at the Wall Street Journal's prime rate plus 3/4 of one percent. The note is collateralized by the Company's interest in oil and gas properties. Debt covenants restrict other debt, pledge of assets, payments of dividends, mergers and changes in ownership.

Note 3

- **Sale of Mings Chapel Interests**

The Company completed the sale for cash to an unrelated purchaser of its interest in the Mings Chapel, Texas producing wells and related assets in March 2003. No gain or loss resulted from the sale with the net credit reducing the Company's net investment in oil and gas properties. The Company reduced its bank debt with $50,000 of the proceeds.

Note 4

- **Change in Well Ownership Interests**

Through action of the Louisiana Conservation Commission, as modified by a court decision of the District Court of Caddo Parish, Louisiana, dated December 17, 2002, Castleguard's working interest in the Hudson Reservoir A Sand of the Youngblood 21-1D well in the Minden Field, Webster Parish, Louisiana field has been reduced retroactively to the date of first production. The Hudson Reservoir A Sand produced in the Youngblood 21-1D Well from December, 1999 through September, 2001, at which time the Hudson A Sand was abandoned and the well was recompleted in other zones. Castleguard's interest in all other producing sands in the Youngblood 21-1 Well will increase as a result of the Orders. Since the entry of the District Court's Order, the parties have negotiated the methodology of implementing that decision, which negotiations have resulted in a June 30, 2003 tentative agreement which was executed on behalf of Castleguard on July 12, 2003.

The reduction in Castleguard's working interest will require Castleguard to pay to other working interest owners a portion of the revenue received by Castleguard attributable to production from the Hudson A Sand and will require other working interest owners to pay to Castleguard an amount for their additional share of the well costs. Although the methodology has been resolved, the calculation of the amounts owed by the parties to each other has not been finalized and agreed upon. The operator of the well, O'Brien Energy Company, is currently determining the amounts to be paid and received among the various working interest owners to give effect to the decision and agreement.

Based on preliminary data forwarded by the operator, Castleguard's management estimates that it will sustain a charge to pre-tax earnings of from $150,000 to $175,000 and will receive an amount approximating $75,000 for well costs, thus cash to be ultimately paid by Castleguard should approximate $75,000 to $100,000. At the time final financial information becomes determinable, Castleguard expects to record the charge less a related tax benefit in the fourth quarter 2003 operating results.

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, 2002, 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, 2003 vs. 2002

Third quarter 2003 (this year) net income declined 69% to $16,815 ($.00 per share) from $53,732 ($.00 per share) in the third quarter of 2002 (last year) as the result of a 72% decline in natural gas production and a 58% decline in oil production. The total effect of production declines was partially offset by a 78% improvement in average prices for natural gas during the quarter. The combination of lower production and higher prices resulted in a 51% decline in revenues this year compared to last year and drove a 69% decline in net income for the quarter.

Production volumes continued to be adversely affected by wells in the Minden Louisiana field where workovers were not able to restore production levels of last year. A new well is drilling in the field with favorable prospects but production, if any, will not commence until late in the fourth quarter or early next year. Castleguard farmed out 60% of its interest in the well to another party retaining rights to participate in 20% of the farmout after payout.

Natural gas sales volumes were 14,151 mcf this year versus 50,754 last year; oil production was 900 barrels this year versus 2,130 barrels last year. Average natural gas prices rose to $5.23 per mcf from $2.93 last year and average oil prices rose to $28.84 per barrel versus $26.42 per barrel last year.

Lease operating expenses and depreciation, depletion and amortization declined in line with production volumes. General and administrative expense was in line with this years' second quarter and slightly higher than last year. Interest expense declined from last year attributable to lower debt levels and lower interest rates.

Nine Month Periods Ended September 30, 2003 vs. 2002

Nine months net income 2003 (this year) of $103,965 was 7% improved over last years of $97,526 principally as a result of higher earnings in the first half of the year. The higher earnings were the result of higher natural gas prices than in 2002 and higher production of barrels of oil. Revenues for the nine months were down 27% from last year as the result of a 71% decline in natural gas production partially offset by a 126% increase in natural gas average prices and a 21% increase in average oil prices.

Gas volumes this year were 53,096 mcf for nine months compared to 180,855 mcf last year. Oil volumes this year were 3,095 barrels compared to 3,322 barrels last year. Average natural gas prices rose to $5.96 per mcf from $2.64 per mcf last year; average oil prices were $29.73 per barrel compared to $24.54 per barrel last year.

Expenses declined in 2003 compared to 2002, following the decline in production this year which combined with lower interest expense from lower borrowings and interest rates more than offset the revenue decline resulting in slightly higher net income.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations for the nine months of 2003 plus proceeds from property sales, but excluding changes in working capital, was adequate to fund operations and required debt reductions during the period. Bank debt was reduced $245,000 during the nine months leaving $150,666 outstanding at September 30, 2003, which is only 11% of Castleguard's capitalization.

During October 2003, Castleguard revised its borrowing arrangement with a commercial bank to increase its borrowing base to $322,333 which provided $193,333 in new borrowing capacity. Their terms provide for a reduction in the borrowing base of $21,667 per month with principal payments required only when the amount outstanding equals the borrowing base. Castleguard expects to fund its share of well costs for a new well drilling in the Minden field from a portion of the availability. Opportunities may exceed funds available which could cause management to review other potential sources of capital.

Change in Well Ownership Interest

Through action of the Louisiana Conservation Commission, as modified by a court decision of the District Court of Caddo Parish, Louisiana, dated December 17, 2002, Castleguard's working interest in

the Hudson Reservoir A Sand of the Youngblood 21-1D well in the Minden Field, Webster Parish, Louisiana field has been reduced retroactively to the date of first production. The Hudson Reservoir A Sand produced in the Youngblood 21-1D Well from December, 1999 through September, 2001, at which time the Hudson A Sand was abandoned and the well was recompleted in other zones. Castleguard's interest in all other producing sands in the Youngblood 21-1 Well will increase as a result of the Orders. Since the entry of the District Court's Order, the parties have negotiated the methodology of implementing that decision, which negotiations have resulted in a June 30, 2003 tentative agreement which was executed on behalf of Castleguard on July 12, 2003.

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Based on preliminary data forwarded by the operator, Castleguard's management estimates that it will sustain a charge to pre-tax earnings of from $150,000 to $175,000 and will receive an amount approximating $75,000 for well costs, thus cash to be ultimately paid by Castleguard should approximate $75,000 to $100,000. At the time final financial information becomes determinable, Castleguard expects to record the charge less a related tax benefit in the fourth quarter 2003 operating results.

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 a date (the "Evaluation Date") within 90 days prior to the filing date of this report. Based upon that evaluation, the President/ Secretary/Treasurer/Director concluded that, as of the Evaluation Date, 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 Evaluation Date.

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, 2003 /s/ Bob G. Honea

BY: Bob G. Honea, Director and President

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