

CASTLEGUARD ENERGY INC
Form 10QSB
May 09, 2003

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 March 31, 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
(State or other jurisdiction of
of incorporation or organization)

75-2615565
(I.R.S. Employer
Identification No.)

4625 Greenville Avenue, Suite 203, Dallas, TX
(Address of principal executive offices)

75206
(Zip Code)

(214) 361-1755
(Registrant's telephone number, including area code)

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

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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 ☒ NO ☐

At March 31, 2003, there were 17,364,626 Common shares outstanding.

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒

CASTLEGUARD ENERGY, INC.

INDEX

Part 1. Financial Information:

Item 1. Financial Statements

Accountant's Review Report

Balance Sheets -

March 31, 2003 (Unaudited) and December 31, 2002 (Audited)

Statements of Income -

For the Three Months Ended March 31, 2003 and 2002 (Unaudited)

Statements of Cash Flows -

For the Three Months Ended March 31, 2003 and 2002 (Unaudited)

Statements of Stockholders' Equity -

For the year 2002 and the Three Months ended March 31, 2003 (Unaudited)

Notes to Financial Statements

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Controls and Procedures

Part II. Other Information:

Item 1. Legal Proceedings

Item 2. Changes in Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

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

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

Signature

Certification

Item 1. FINANCIAL STATEMENTS

ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders
Castleguard Energy, Inc.

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We have reviewed the accompanying balance sheet of Castleguard Energy, Inc. as of March 31, 2003, and the related statements of income, cash flows and stockholders' equity for the three month period 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 in accordance with generally accepted auditing standards, 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 generally accepted accounting principles.

Whitley Penn

Dallas, Texas

May 6, 2003

CASTLEGUARD ENERGY INC.

BALANCE SHEETS

	March 31, 2003 <u>(Unaudited)</u>	December 31, 2002 <u>(Audited)</u>
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ASSETS

Current assets:

Cash	\$	71,348	\$	126,823
		<u>147,419</u>		<u>66,719</u>

Accounts receivable

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Total current assets	218,767	193,542
Petroleum and natural gas interests, net	1,371,629	1,476,692
	<u>15,464</u>	<u>18,363</u>
Deferred debt issue cost, net		
	<u>1,605,860</u>	<u>1,688,597</u>
TOTAL ASSETS	\$	\$

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued liabilities	\$ 68,575	\$ 123,539
	<u>260,004</u>	<u>260,004</u>
Current portion of long-term debt		
Total current liabilities	328,579	383,543
Long-term debt, less current portion	20,664	135,665
	<u>134,434</u>	<u>107,434</u>
Deferred income taxes		
	<u>483,677</u>	<u>626,642</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>193,130</u>	<u>132,902</u>
Retained earnings	1,178,183	1,117,955
	<u>(56,000)</u>	<u>(56,000)</u>
Less: Treasury stock, 1,862,000 shares at cost))
Total stockholders' equity	<u>1,122,183</u>	<u>1,061,955</u>

		<u>1,605,860</u>	<u>1,688,597</u>
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$		\$

CASTLEGUARD ENERGY INC.

STATEMENTS OF INCOME

(Unaudited)

		Three months ended	
		<u>March 31,</u>	
		<u>2003</u>	<u>2002</u>
Oil and gas sales	\$	<u>190,789</u>	\$ <u>169,425</u>
Expenses:			
Lease operating expenses and taxes		22,563	29,324
Depreciation, depletion and amortization		28,123	60,897
General and administrative		<u>45,267</u>	<u>52,214</u>
		<u>95,953</u>	<u>142,435</u>
Income from operations		94,836	26,990
Interest and financing costs		<u>(7,608)</u>	<u>(7,725)</u>
))
Income before income taxes		87,228	19,265
Provision for income taxes		<u>27,000</u>	<u>5,780</u>
Net income	\$	<u>60,228</u>	\$ <u>13,485</u>

Basic and diluted earnings per common share	\$	<u> .00</u>	\$	<u> .00</u>
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Weighted average number of common shares outstanding (Thousands)		<u> 17,365</u>		<u> 17,241</u>
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CASTLEGUARD ENERGY INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

		Three Months Ended March 31,	
		<u>2003</u>	<u>2002</u>
Cash Flows from Operating Activities:			
Net income	\$	60,228	\$ 13,485
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation, depletion and amortization		28,123	60,897
Deferred income taxes		27,000	5,780
Change in assets and liabilities:			
Accounts receivable and accounts payable		(135,664)	(10,595)
Amortization of financing costs		<u>2,900</u>	<u>1,933</u>
Net cash provided by (used in) operating activities		<u>(17,413)</u>	<u>71,500</u>
)		
Cash Flows from Investing Activities:			
Additions to petroleum and natural gas interests		(27,863)	(3,252)
Proceeds from sale of petroleum and natural gas interests		<u>104,802</u>	<u>-</u>

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Net cash provided by (used in) investing activities	<u>76,939</u>	<u>(3,252)</u>
)
Cash Flows from Financing Activities:		
Refinancing of bank loan	-	583,343
Payments on long-term debt	<u>(115,001)</u>	<u>(627,082)</u>
))
Net cash used by financing activities	<u>(115,001)</u>	<u>(43,739)</u>
))
Net increase (decrease) in cash and cash equivalents	(55,475)	24,509
Cash and cash equivalents, beginning of period	<u>126,823</u>	<u>99,979</u>
Cash and cash equivalents, end of period	\$ <u>71,348</u>	\$ <u>124,488</u>
Cash paid for interest during the period	\$ <u>4,708</u>	\$ <u>6,073</u>

CASTLEGUARD ENERGY INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited for year 2003 first quarter)

	<u>Common Stock</u>		Additional			Total
			Paid-in	Treasury	Retained	Stockholders'
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Stock</u>	<u>Earnings</u>	<u>Equity</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,929</u>	<u>105,929</u>

Balance, December 31, 2002	19,226,626	19,227	965,826	(56,000)	132,902	1,061,955
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Net income	-	-	-	-	60,228	60,228
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Balance, March 31, 2003	<u>19,226,626</u>	<u>\$ 19,227</u>	<u>\$ 965,826</u>	<u>\$ (56,000)</u>	<u>\$ 193,130</u>	<u>\$ 1,122,183</u>
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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. 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 generally accepted accounting principles 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 generally accepted accounting principles 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 three months ended March 31, 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

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

Note 2 - Long-Term Debt

Long-term debt is a secured note payable to a commercial bank, payable at \$21,667 per month plus interest 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 and is also guaranteed by two directors of the Company.

Debt covenants restrict other debt, pledge of assets, payments of dividends, mergers and changes in ownership.

CASTLEGUARD ENERGY, INC

NOTES TO FINANCIAL STATEMENTS

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.

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 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 March 31, 2003 vs. 2002

First quarter 2003 (this year) results of operations improved 347% over last years' first quarter as the result of higher gas prices (187%), higher oil prices (67%) and higher oil production (up 106%). The combination of higher prices and higher oil production more than offset the effect of a 67% decline in production of natural gas. The combined effect of volumes and prices was to increase revenue by 12.6% over last year.

The Company sold its interest in the Mings Chapel field in Upshur County, Texas effective January 1, 2003, and that sale had a minimal effect on volumes and operating costs. Gas production declines were principally attributable to mechanical problems in our Minden Louisiana field where the gas wells were worked over in the last quarter of 2002, but which did not come back to prior production levels after workover.

Natural gas sales volumes were 21,978 mcf this year versus 66,668 mcf last year, but our oil production more than doubled from 625 bbls last year to 1,290 bbls this year. Average natural gas sales prices rose to \$6.77 per mcf from \$2.36 per mcf last year and oil prices improved to \$32.12 per barrel from \$19.26 per barrel last year.

Depreciation, depletion and amortization declined 54% from last years' level as the result of lower production. Other costs, including interest and financing costs were about the same quarter to quarter.

LIQUIDITY AND CAPITAL RESOURCES

The sale of the Mings Chapel properties generated cash proceeds which were applied to reduce bank debt \$50,000 with the remainder going to general corporate purposes. Cash flow from operations continues to

provide adequate funding to meet operating commitments and debt service.

The Company is reviewing investment opportunities available to it for new areas of interest, as well as, additional wells in the Minden field. The Company believes it can fund some projects from internal cash flow but to fully take advantage of opportunities will require additional sources of funding yet identified. Debt reductions through March 31, 2003 have brought the Company's debt to equity ratio down to 25% which should allow additional financing if needed. The lack of additional funding will limit the Company's ability to capitalize on new opportunities.

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

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) Reports on Form 8-K - No Reports on Form 8-K were filed during the last quarter of the period covered by this report.

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.

May 6, 2003

/s/ Bob G. Honea
BY: Bob G. Honea, Director and President

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CERTIFICATION

I, Bob G. Honea, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Castleguard Energy, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under

which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others within this entity, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 6, 2003

/s/ Bob G.
Honea

BY: Bob G. Honea, Director/President

Treasurer/ Secretary