CASTLEGUARD ENERGY INC
Form 10QSB
August 13, 2004

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 June 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	75-2789691
(State or other jurisdiction of of incorporation or organization)	(I.R.S. Employer Identification No.)
17768 Preston Road, Dallas, Texas	75252
(Address of principal executive offices)	(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)

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 June 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 June 30, 2004, and the related statements of income, cash flows and stockholders' equity for the three-month and six-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
August 10, 2004

CASTLEGUARD ENERGY, INC.

BALANCE SHEETS

	June 30, 2004 (Unaudited)	December 31, 2003 (Audited)
ASSETS		

Current assets:		
Cash and cash equivalents	$ 6,399	$ 9,501
	84,804	2,319
Accounts receivable		
Total current assets	91,203	11,820
Petroleum and natural gas interests, net	1,211,123	1,191,324
		6,766
Deferred debt issue costs, net		
	1,302,326	1,209,910
TOTAL ASSETS	$	$

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued liabilities	$ 49,829	$ 74,455
	228,999	130,002
Current portion of long-term debt		
Total current liabilities	278,828	204,457
Long-term debt, less current portion		18,997
	60,968	47,042
Deferred income taxes		
	339,796	270,496
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
	33,477	10,361
Retained earnings		
	1,018,530	995,414
Treasury stock, 1,862,000 shares at cost	(56,000	(56,000

)	)	
	962,530	939,414
Total stockholders' equity		
	1,302,326	1,209,910
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$	$

See accompanying notes to financial statements.

CASTLEGUARD ENERGY, INC.

STATEMENTS OF INCOME
(Unaudited)

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003
Oil and gas sales	$ 90,055	$ 118,586	$ 167,098	$ 309,375
Expenses:				
Lease operating expense and taxes	14,101	22,626	30,414	45,188
Depreciation, depletion and amortization	12,820	18,991	24,553	47,114
General and administrative	30,411	31,099	62,116	76,367
	57,332	72,716	117,083	168,669
Income from operations	32,723	45,870	50,015	140,706
Interest and financing costs	(7,069	(6,448	(12,972	(14,056
	)	)	)	)
Income before income taxes	25,654	39,422	37,043	126,650

Provision for income taxes	10,510	12,500	13,927	39,500
Net income	$ 15,144	$ 26,922	$ 23,116	$ 87,150
Basic and diluted earnings per common share	$ .00	$ .00	$ .00	$ .01
Weighted average number of common shares outstanding (Thousands)	17,365	17,365	17,365	17,365

See accompanying notes to financial statements.

CASTLEGUARD ENERGY INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2004	2003
Cash Flows from Operating Activities:		
Net income	$ 23,116	$ 87,150
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	24,553	47,114
Deferred income taxes	13,926	39,500
Amortization of financing costs	6,766	5,799
Change in assets and liabilities:		
Accounts receivable, accounts payable and accrued liabilities	(107,110	(162,010
	)	)
Net cash provided by (used in) operating activities	(38,749	17,553

	)	
Cash Flows from Investing Activities:		
Additions to petroleum and natural gas interests	(44,353)	(27,884)
Proceeds from sale of petroleum and natural gas interests		104,803
Net cash provided by (used in) investing activities	(44,353	76,919
	)	
Cash Flows from Financing Activities:		
Proceeds from borrowings	80,000	
Payments on long-term debt		(180,002
		)
Net cash provided by (used in) financing activities	80,000	(180,002
		)
Net decrease in cash and cash equivalents	(3,102)	(85,530)
Cash and cash equivalents, beginning of period	9,501	126,823
Cash and cash equivalents, end of period	$ 6,399	$ 41,293
Supplemental information:		
Interest paid	$ 6,207	$ 8,257

See accompanying notes to financial statements.

CASTLEGUARD ENERGY, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited for year 2004 first six months)

	Common Stock		Paid-in	Treasury	Retained	Total Stockholders'
	Shares	Amount	Capital	Stock	Earnings	Equity
Balance, December 31, 2002	19,226,626	$ 19,227	$ 965,826	$ (56,000)	$ 132,902	$ 1,061,955
Net loss 2003					(122,541)	(122,541)
Balance, December 31, 2003	19,226,626	19,227	965,826	(56,000)	10,361	939,414
Net income, first six months, 2004					23,116	23,116
Balance, June 30, 2004	19,226,626	$ 19,227	$ 965,826	$ (56,000)	$ 33,477	$ 962,530

See accompanying notes to financial statements.

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. 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 six months ended June 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 June 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 June 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 and in June 2004, the Company extended until August 2004 the due date of principal payments which were required by the agreement. Payments of $21,667 a month plus interest will now be due starting in August 2004 unless further extended.

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 June 30, 2004 vs. 2003

Second quarter 2004 (this year) net income fell 44% to $15,144 ($.00 per share) from $26,922 ($.00 per share) in the second quarter of 2003 (last year) as the result of a continuing decline in production volumes of natural gas (33%) and oil (37.8%) compared with last year. Natural gas sales volumes were 11,354 mcf this year versus 16,965 mcf last year and oil production declined 342 barrels to 563 barrels.

Lease operating expenses and depreciation, depletion and amortization both declined following the decline in volumes.

Six Month Periods Ended June 30, 2004 vs. 2003

Six months net income 2004 (this year) of $23,116 was down 73% compared to last years of $87,150 as a result of the same decline in production volumes which has occurred in the Company's Minden Louisiana

interests. The declining volumes drove a 46% decline in revenues.

Gas volumes this year were 21,019 mcf down from 38,945 mcf last year. Oil volumes decreased from 2,195 barrels in the first half of last year to 1,233 barrels this year. Prices for oil were higher this year versus last but gas prices eased slightly. Average natural gas prices were $5.90 per mcf compared to $6.22 per mcf last year; average oil prices of $30.09 per barrel last year rose to $34.94 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 19% and interest cost was down 7.7% compared to last year from a combination of rates and debt balances.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations for the first six months of 2004 produced approximately $68,000 in cash flow before changes in working capital. That cash flow, combined with $80,000 in borrowings, funded our share of a new well in Minden which began production in June. Our ability to make reductions of the debt depends on cash flow from the new well and will likely require us to further rearrange repayment terms, seek other alterations to the revolver and/or seek other sources of capital. The Board of Directors is closely monitoring the availability of revenues and considering options for capital.

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.

August 13, 2004 /s/ Harvey Jury

By: Harvey Jury, 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