

CASTLEGUARD ENERGY INC  
Form 10QSB  
August 12, 2005

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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 June 30, 2005

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 June 30, 2005, there were 17,364,626 Common shares outstanding.

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

CASTLEGUARD ENERGY, INC.

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## PART I.

### Item 1. FINANCIAL STATEMENTS

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying balance sheet of Castleguard Energy, Inc. as of June 30, 2005, and the related statements of operations, 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 of the Public Company Accounting Oversight Board (United States). 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 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, 2005

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CASTLEGUARD ENERGY, INC.

BALANCE SHEETS

	June 30, 2005 <u>(Unaudited)</u>	December 31, 2004 <u>(Audited)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,779	\$ 28,458
	<u>123,816</u>	<u>54,270</u>
Accounts receivable		

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Total current assets		158,595		82,728
		<u>1,127,721</u>		<u>1,207,400</u>
Petroleum and natural gas interests, net				
		<u>1,286,316</u>		<u>1,290,128</u>
TOTAL ASSETS	\$		\$	
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$	23,214	\$	22,503
Joint interest billings payable to operator		106,789		71,137
		<u>203,499</u>		<u>50,000</u>
Current portion of long-term debt				
Total current liabilities		333,502		143,640
Long-term debt, less current portion		-		163,999
		<u>37,946</u>		<u>46,946</u>
Deferred income taxes				
		<u>369,448</u>		<u>354,585</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>(12,185)</u>		<u>6,490</u>
Retained earnings (accumulated deficit)		972,868		991,543
		<u>(56,000)</u>		<u>(56,000)</u>
Treasury stock, 1,862,000 shares at cost	)		)	
		<u>916,868</u>		<u>935,543</u>
Total stockholders' equity		<u>1,286,316</u>		<u>1,290,128</u>
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$		\$	

See accompanying notes to financial statements.

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## CASTLEGUARD ENERGY, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended <u>June 30, 2005</u>	Three months ended <u>June 30, 2004</u>	Six months ended <u>June 30, 2005</u>	Six months ended <u>June 30, 2004</u>
Oil and gas sales	\$ 51,981	\$ 90,055	\$ 111,214	\$ 167,098
Expenses:				
Lease operating expense and taxes	19,648	14,101	34,577	30,414
Depreciation, depletion and amortization	19,040	12,820	44,516	24,553
General and administrative	<u>21,121</u>	<u>30,411</u>	<u>53,307</u>	<u>62,116</u>
	<u>59,809</u>	<u>57,332</u>	<u>132,400</u>	<u>117,083</u>
Income (loss) from operations	(7,828)	32,723	(21,186)	50,015
Interest and financing costs	<u>(3,489)</u>	<u>(7,069)</u>	<u>(6,489)</u>	<u>(12,972)</u>
	)	)	)	)
Income (loss) before income taxes	(11,317)	25,654	(27,675)	37,043
Provision for income taxes	<u>(3,900)</u>	<u>10,510</u>	<u>(9,000)</u>	<u>13,927</u>
	)	)	)	)
Net income (loss)	\$ <u>(7,417)</u>	\$ <u>15,144</u>	\$ <u>(18,675)</u>	\$ <u>23,116</u>
Basic and diluted earnings per common share	\$ <u>(.00)</u>	\$ <u>.00</u>	\$ <u>(.00)</u>	\$ <u>.00</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)

Six Months Ended	
<u>June 30,</u>	
<u>2005</u>	<u>2004</u>

Cash Flows from Operating Activities:

Net income (loss)	\$ (18,675)	\$ 23,116
Adjustments to reconcile net income (loss) to net cash		

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provided by (used in) operating activities:		
Depreciation, depletion and amortization	44,516	24,553
Deferred income taxes	(9,000)	13,926
Amortization of financing costs	-	6,766
Change in assets and liabilities:		
Accounts receivable, accounts payable and accrued liabilities	<u>(33,184)</u>	<u>(107,110)</u>
	)	)
Net cash provided by (used in) operating activities	<u>(16,343)</u>	<u>(38,749)</u>
	)	)
Cash Flows from Investing Activities:		
Additions to petroleum and natural gas interests	(37,386)	(44,353)
Proceeds from sale of petroleum and natural gas interests	<u>72,550</u>	<u>-</u>
Net cash from (used in) investing activities	<u>35,164</u>	<u>(44,353)</u>
		)
Cash Flows from Financing Activities:		
Proceeds from borrowings	-	80,000
Payments on long-term debt	<u>(12,500)</u>	<u>-</u>
	)	
Net cash provided by (used in) financing activities	<u>(12,500)</u>	<u>80,000</u>
	)	
Net increase (decrease) in cash and cash equivalents	6,321	(3,102)
Cash and cash equivalents, beginning of period	<u>28,458</u>	<u>9,501</u>
Cash and cash equivalents, end of period	\$ <u>34,779</u>	\$ <u>6,399</u>
Supplemental information:		
Interest paid	\$ <u>5,489</u>	\$ <u>6,207</u>



See accompanying notes to financial statements.

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## CASTLEGUARD ENERGY, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited for year 2005 first half)

	<u>Common Stock</u>		Paid-in	Treasury	Retained	Total
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Stock</u>	(Accumulated <u>Deficit</u> )	Stockholders' <u>Equity</u>
Balance, December 31, 2003	19,226,626	\$ 19,227	\$ 965,826	\$ (56,000)	\$ 10,361	\$ 939,414
Net loss 2004	_____	_____	_____	_____	<u>(3,871)</u>	<u>(3,871)</u>
					)	)
Balance, December 31, 2004	19,226,626	19,227	965,826	(56,000)	6,490	935,543
Net loss, first six months	_____	_____	_____	_____	<u>(18,675)</u>	<u>(18,675)</u>
					)	)
Balance, June 30, 2005	<u>19,226,626</u>	<u>\$ 19,227</u>	<u>\$ 965,826</u>	<u>\$ (56,000)</u>	<u>\$ (12,185)</u>	<u>\$ 916,868</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. 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, 2004 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, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

(c) Net Income (Loss) per Weighted Average Share

Basic net income (loss) 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.

(e) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Note 2 - Long-Term Debt

The Company is party to a debt agreement with a commercial bank that 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 December 31, 2004, the borrowing base was less than the outstanding note balance. Interest is payable monthly at the bank's prime rate (5.25% at December 31, 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.

On April 7, 2005, the Company negotiated new terms for the agreement which extends its maturity to February 1, 2006, provides for a \$5,000 principal reduction immediately and further reductions of \$7,500 each month beginning July 1, 2005.

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, 2004, 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

Overall Operations

Mechanical problems and rapid well decline curves have adversely affected production in the Minden Louisiana Field for the last two years. Although some wells have been worked over and production increased, overall production continues to decline more rapidly than anticipated. The decline has adversely affected revenues and cash flow and continued through the second quarter of 2005. In addition, a regulatory action in 2003 to retroactively reduce our share of a former producing well required a payment of \$83,631 which further exacerbated our reduced cash resources. Consequently, in 2003 we farmed out a portion of a new well

drilled and in 2004 only participated in our share of costs to work over two wells. The production declines have resulted in a reduction of our reserves that caused an increase in our rate of depreciation, depletion and amortization (DD&A) during 2004. Consequences of the foregoing are described in "Liquidity and Capital Resources".

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#### Three Month Periods Ended June 30, 2005 vs. 2004

Second quarter 2005 (this year) loss of (\$7,417) (\$.00 per share) continued the trend of the first quarter, down from a small profit in 2004 of \$15,144 (\$.00 per share). Declines in production quantities coupled with slight increases in prices were the principal drivers of a 42% decline in revenues. The revenue decline plus higher lease operating costs and higher DD&A combined to produce an operating loss for the quarter.

Natural gas volumes declined 50.3% from 2004, 5,641 mcf versus 11,354 mcf last year; oil volumes were 399 barrels down from 563 barrels last year. The production declines continued the down trend from the Minden Louisiana field which started in 2003. Higher lease operating costs, higher DD&A rates and slightly lower general and administrative expenses combined for a 4.3% increase in expenses. Interest and financing costs were slightly lower due to lower debt levels and the completion of amortization of financing costs.

Expenses were largely stable from quarter to quarter but depreciation, depletion and amortization DD&A was up 117% from applying the rates effective in 2004 which were higher as the result of lower year-end reserves.

#### Six Month Periods Ended June 30, 2005 vs. 2004

The same factors that impacted the second quarter were responsible for the six month results compared to last year.

Revenues declined from lower production rates and operating costs were higher due to higher DD&A rates. The combination caused a loss of (\$18,675) (\$.00 per share) for the six months ended June 2005 versus a profit of \$23,116 (\$.00 per share) last year.

Volumes of gas sold this year were 13,480 mcf down from 21,019 mcf last year. Oil sales were 622 barrels this year down from 1,233 barrels last year. Prices for natural gas sales averaged \$6.35 per mcf, up from \$5.90 per mcf last year; oil prices averaged \$41.12 per barrel this year versus \$34.94 per barrel last year.

As in the second quarter, interest and financing costs was down from last year because financing costs have been fully amortized.

### LIQUIDITY AND CAPITAL RESOURCES

Capital resources and liquidity have been strained since 2003. Our borrowing arrangement with a commercial bank was revised in 2003 to provide some relief but lower production volumes, less cash flow and our share of workover costs have combined to exceed our cash inflows. The operator of wells in Minden

started offsetting our revenues in the fourth quarter of 2004 and will continue until we have fully paid our obligation which will be sometime after the end of the second quarter of 2005. As a consequence, during the fourth quarter we started delaying bill paying and principal reductions on our bank obligation. In early April 2005, we negotiated new terms on the bank debt, to bring the note current with a principal reduction of \$5,000 and a revised maturity of February 1, 2006. Terms provide for principal reductions of \$7,500 per month plus interest beginning July 1, 2005. Bank officials indicated a willingness to review the status again in early 2006.

To partially alleviate the cash shortage, the Board of Directors approved the sale of the Company's interest in the Cedar Creek, Alabama property and the sale was closed during the second quarter. Proceeds from the sale were used to pay past due bills from vendors.

The effect of the foregoing is that cash resources continue to be strained and are expected to remain that way for the foreseeable future. As a consequence, little if any capital is available for any new projects or significant workovers of existing wells. The Board of Directors continues to explore options for the future direction of the Company.

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### 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







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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

