CASTLEGUARD ENERGY INC
Form 10QSB
May 12, 2005

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 March 31, 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 [X] NO [ ]

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 March 31, 2005, 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

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 March 31, 2005, and the related statements of operations, 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 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

May __, 2005

CASTLEGUARD ENERGY, INC.

BALANCE SHEETS

		March 31, 2005 (Unaudited)		December 31, 2004 (Audited)
ASSETS				
Current assets:				
Cash and cash equivalents	$	17,416	$	28,458
		79,609		54,270
Accounts receivable				
Total current assets		97,025		82,728

		1,197,751		1,207,400
Petroleum and natural gas interests, net				
		1,294,776		1,290,128
TOTAL ASSETS	$		$	
LIABILITIES & STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	122,146	$	93,640
		206,499		50,000
Current portion of long-term debt				
Total current liabilities		328,645		143,640
Long-term debt, less current portion		-		163,999
		41,846		46,946
Deferred income taxes				
		370,491		354,585
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
		(4,768)		6,490
Retained earnings (accumulated deficit)				
		980,285		991,543
		(56,000		(56,000
Treasury stock, 1,862,000 shares at cost	)		)	
		924,285		935,543
Total stockholders' equity				
		1,294,776		1,290,128
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$		$	

See accompanying notes to financial statements.

CASTLEGUARD ENERGY, INC.

STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Oil and gas sales	$ 59,233	$ 77,043
Expenses:		
Lease operating expense and taxes	14,929	16,314
Depreciation, depletion and amortization	25,476	11,732
General and administrative	32,186	31,706
	72,591	59,752
Income (loss) from operations	(13,358)	17,291
Interest and financing costs	(3,000)	(5,903)
Income (loss) before income taxes	(16,358)	11,388
Provision (benefit) for income taxes	(5,100)	3,417
Net income (loss)	$ (11,258)	$ 7,971
Basic and diluted earnings (loss) per common share	$ .00	$ .00
Weighted average number of common shares outstanding (Thousands)	17,365	17,365

See accompanying notes to financial statements.

CASTLEGUARD ENERGY INC.

STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2005		Three Months Ended March 31, 2004	
Cash Flows from Operating Activities:				
Net income (loss)	$	(11,258)	$	7,971
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation, depletion and amortization		25,476		11,732
Deferred income taxes		(5,100)		3,417
Amortization of financing costs		-		3,383
Change in assets and liabilities:				
Accounts receivable, accounts payable and accrued liabilities		3,167		(74,604)
Net cash provided by (used in) operating activities		12,285		(48,101)

Cash Flows from Investing Activities:		
Additions to petroleum and natural gas interests	(15,827)	(36,562)
Net cash used in investing activities	(15,827)	(36,562)
Cash Flows from Financing Activities:		
Proceeds from borrowings	-	80,000
Payments on long-term debt	(7,500)	
Net cash provided by (used in) financing activities	(7,500)	80,000
Net decrease in cash and cash equivalents	(11,042)	(4,663)
Cash and cash equivalents, beginning of period	28,458	9,501
Cash and cash equivalents, end of period	$ 17,416	$ 4,838
Supplemental information:		
Interest paid	$ -	$ 1,321

See accompanying notes to financial statements.

CASTLEGUARD ENERGY, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited for year 2005 first quarter)

	Common Stock		Paid-in	Treasury	Retained Earnings (Accumulated	Total Stockholders'
	Shares	Amount	Capital	Stock	Deficit)	Equity
Balance, December 31, 2003	19,226,626	19,227	965,826	(56,000)	10,361	939,414
Net loss 2004					(3,871)	(3,871)
Balance, December 31, 2004	19,226,626	19,227	965,826	(56,000)	6,490	935,543
Net loss, first quarter					(11,258)	(11,258)
Balance, March 31, 2005	19,226,626	$ 19,227	$ 965,826	$ (56,000)	$ (4,768)	$ 924,285

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, 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 three months ended March 31, 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.

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. 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".

Three Month Periods Ended March 31, 2005 vs. 2004

First quarter 2005 (this year) loss of $11,258 ($.00 per share) is a reversal from net income of $7,971 ($.00 per share) in the first quarter of 2004 (last year). The reversal was driven by a 23% decline in natural gas volumes and a 59% decline in oil volumes from 2004, offset by improved prices for both commodities. Natural gas sales volumes were 7,480 mcf this year versus 9,665 mcf last year and crude oil production declined to 274 barrels from 670 barrels last year. The production declines were attributable to lower production rates from our Minden Louisiana field whose production rates started to decline in the last half of 2002 when we experienced mechanical problems with some of the wells. Although workover of the wells was successful, the production rates continue to decline more rapidly than our original expectations.

The combination of lower production and higher prices for natural gas and crude oil resulted in a 23% decline in revenues to $59,233 from $77,043 in 2004.

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

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 sometime during 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.

The effect of the foregoing is that cash resources are strained and it will take a few months to pay past due bills from vendors. During that time and into the future, little if any capital is available for any new projects or significant workovers of existing wells. The Board of Directors is assessing the future direction of 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.

CASTLEGUARD ENERGY, INC

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

(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

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 12 , 2005 /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