CASTLEGUARD ENERGY INC
Form 10QSB
November 21, 2006

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, 2006

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.)
16200 Addison Road, Suite 155, Addison, Texas (Address of principal executive offices)	75001 (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 [ ]

Indicate by check mark if the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).	YES [ ] NO [X]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b of the Exchange Act).	YES [ ] NO [X]

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 September 30, 2006, and the related statements of operations, cash flows and stockholders' equity for the three and nine month periods ended September 30, 2006 and 2005. These financial statements are the responsibility of the Company's management.

We conducted our interim reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of 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 interim reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Whitley Penn LLP

Dallas, Texas

November 20, 2006

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CASTLEGUARD ENERGY, INC.

BALANCE SHEETS

ASSETS

	September 30, 2006 (Unaudited)	December 31, 2005 (Audited)

Current assets:				
Cash and cash equivalents	$	1,645	$	8,845
		22,626		34,745
Accounts receivable				
Total current assets		24,271		43,590
Petroleum and natural gas interests, net		1,325,845		1,175,723
		20,000		-
Other assets				
		1,370,116		1,219,313
TOTAL ASSETS	$		$	
LIABILITIES & STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	99,765	$	34,034
Joint interest billings payable to operator		219,369		109,983
Advances from shareholders		30,545		-
		182,423		182,423
Current portion of long-term debt				
Total current liabilities		532,102		326,440
		20,384		31,066
Deferred income taxes				
		552,486		357,506
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
		(111,423)		(67,246
Accumulated deficit			)	
		873,630		917,807
Treasury stock, 1,862,000 shares at cost		(56,000		(56,000

	)	)
	817,630	861,807
Total stockholders' equity		
	1,370,116	1,219,313
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$	$

See accompanying notes to financial statements.

CASTLEGUARD ENERGY, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Oil and gas sales	$ 49,607	$ 44,475	$ 171,623	$ 155,690
Expenses:				
Lease operating expense and taxes	37,127	12,344	88,317	46,921
Depreciation, depletion and amortization	14,932	18,804	53,674	63,320
General and administrative	19,995	24,179	72,243	77,485
	72,054	55,327	214,234	187,726
Loss from operations	(22,447)	(10,852)	(42,611)	(32,036)
Interest and financing costs	(5,050	(651	(12,250	(7,140
)	)	)	)	
Loss before income taxes	(27,497)	(11,503)	(54,861)	(39,176)
Benefit for income taxes	(3,334	(2,750	(10,684	(11,750

	)	)	)	)
Net loss	$ (24,163)	$ (8,753)	$ (44,177)	$ (27,426)
Basic and diluted loss per common share	$ (.00)	$ (.00)	$ (.00)	$ (.00)
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)

	Nine months Ended September 30,	
	2006	2005
Cash Flows from Operating Activities:		
Net loss	$ (44,177)	$ (27,426)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		

Depreciation, depletion and amortization	53,674	63,320
Deferred income taxes	(10,684)	(11,750)
Change in assets and liabilities:		
Accounts receivable	12,119	-
Accounts payable, accrued liabilities and joint interest billings payable to operator	175,117	9,783
Net cash provided by (used in) operating activities	186,049	33,927
Cash Flows from Investing Activities:		
Additions to petroleum and natural gas interests	(203,794)	(96,163)
Retention of investment advisors	(20,000)	-
Proceeds from sale of petroleum and natural gas interests	-	72,550
Net cash provided by (used in) investing activities	(223,794)	(23,613)
Cash Flows from Financing Activities:		
Advances from shareholders	30,545	-
Payments on long-term debt	-	(27,500)
Net cash provided by (used in) financing activities	30,545	(27,500)
Net increase (decrease) in cash and cash equivalents	(7,200)	(17,186)
Cash and cash equivalents, beginning of period	8,845	28,458
Cash and cash equivalents, end of period	$ 1,645	$ 11,272
Supplemental information:		
Interest paid	$ 10,545	$ 7,140
Income taxes paid	$ -	$ 1,473

See accompanying notes to financial statements.

CASTLEGUARD ENERGY, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited for year 2006 first nine months)

	Common Stock									Retained Earnings (Accumulated		Total Stockholders'
	Shares		Amount		Paid-in Capital		Treasury Stock			Deficit)		Equity
Balance, December 31, 2004	19,226,626	$	19,227	$	965,826	$	(56,000)	$		6,490	$	935,543
Net loss, 2005	-		-		-		-			(73,736)		(73,736)
Balance, December 31, 2005	19,226,626		19,227		965,826		(56,000)			(67,246)		861,807
Net loss, first nine months	-		-		-		-			(44,177)		(44,177)
Balance, September 30, 2006	19,226,626	$	19,227	$	965,826	$	(56,000)	$		(111,423)	$	817,630

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 and Texas. 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, 2005 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, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has continued to incur net losses which have resulted in an accumulated deficit of $111,423 at September 30, 2006. The Company had a net loss of ($44,177) and ($27,426) for the nine months ended September 30, 2006 and 2005, respectively. At September 30, 2006, current liabilities exceeded current assets by $507,831.

The ability of the Company to continue as a going concern is dependent on the successful implementation of its business plan, obtaining additional capital, and generating sufficient revenues and cash flows. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The time required for the Company to become profitable is highly uncertain, and the Company cannot be assured that it will achieve or sustain profitability or generate sufficient cash flow from operations to meet working capital requirements. If required, the ability to obtain additional financing from other sources also depends on many factors beyond the control of the Company, including the state of the capital markets and the prospects for business growth. The necessary additional financing may not be available or may be available only on terms that would result in further dilution to the current owners of the Company's common stock. The financial statements do not include any adjustments to reflect the possible effect on recoverability and classification of assets or the amounts and classification of liabilities which may result from the inability of the Company to continue as a going concern.

(c) Basic and Diluted Loss per Common Share

Basic and diluted loss per weighted average share is calculated using the weighted average number of shares of common stock outstanding. The Company has no dilutive shares outstanding.

(d) Oil and Gas Sales

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

CASTLEGUARD ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2005, the borrowing base was less than the outstanding note balance. Interest is payable monthly at the bank's prime rate (7.25% at December 31, 2005) plus .75 percent. The note is collateralized by all of the Company's oil and gas properties and by a guarantee of the Company's principal stockholder. 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 extended its maturity to February 1, 2006, provided for a $5,000 principal reduction immediately and further reductions of $7,500 each month beginning July 1, 2005. Not all of the scheduled reductions were made as required, and the facility expired on February 1, 2006.

On April 4, 2006, the bank agreed to extend the maturity to May 31, 2006, eliminate the monthly required reductions for October 2005 through January 2006 and reduce the borrowing base to $182,423, the current balance due. The Chairman of the Company paid accrued interest on the debt on June 21, 2006 and again on August 31, 2006. The payments were treated as advances from a shareholder.

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, 2005, which is incorporated herein by reference.

CASTLEGUARD ENERGY, INC.

RESULTS OF OPERATIONS

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.

Overall Operations

Mechanical problems and rapid well decline curves have adversely affected production in the Minden Louisiana Field for the last three 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 2005 and 2006 only participated in our share of costs to work over two wells each year. 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 2005 and 2006. Consequences of the foregoing are described in "Liquidity and Capital Resources".

Three Month Periods Ended September 30, 2006 vs. 2005

Third quarter 2006 (this year) net loss of ($24,163) ($.00 per share) is a 176% increase from a net loss of ($8,753) ($.00 per share) in the third quarter of 2005 (last year). The increased loss was driven by continuing declines in volumes of production, 7% in gas and offset by a 124% increase in oil compared with 2005, but also affected by lower prices for gas mitigated by higher oil prices. Natural gas sales volumes were 4,082 mcf this year versus 4,387 mcf last year and crude oil production was 334 barrels from 149 barrels last year.

Prices for natural gas averaged $6.19 per mcf for this quarter versus $7.78 per mcf for last year. Oil prices increased this year to $71.28 per barrel from $68.53 per barrel last year.

A 201% increase in lease operating expenses more than offset the slight revenue increase in the quarter compared with last year, primarily due to increased oil production. Such expenses were also primarily responsible for the higher net loss in the quarter compared to last year.

Nine Month Periods Ended September 30, 2006 vs. 2005

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

Revenues were increased 10% from sharply higher prices for oil offset by lower production of natural gas. But higher lease operating costs more than offset increased revenues leading to a larger loss of ($44,177) ($.00 per share) for the nine months ended September 30, 2006 versus a loss of ($27,426) ($.00 per share) last year.

Volumes of gas sold this year were 12,842 mcf down from 17,867 mcf last year. Oil sales were 1,298 barrels this year up from 771 barrels last year. Prices for natural gas sales averaged $6.61 per mcf, down from $6.70 per mcf last year; oil prices averaged $68.41 per barrel this year versus $46.62 per barrel last year.

Operating costs were in line between the years except that lease operating expenses were up 88% driven by higher oil production.

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 continued through today. As a consequence, during the fourth quarter of 2004 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 provided for principal reductions of $7,500 per month plus interest beginning July 1, 2005. On April 4, 2006 the bank agreed to extend the maturity to May 31, 2006, and eliminate monthly reductions for October, 2005 through January, 2006 and reduce the borrowing base to $182,423, the current balance due. The Chairman of the Company paid interest on the bank debt twice since June 21, 2006. Such payments have been treated as advances from a shareholder.

Although we paid amounts due the operator in the third quarter 2005, new billings for the well workovers exceeded our ability to pay, so the operator is still holding our revenues until the balance is paid.

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 and on April 20, 2006 engaged Petro Capital Securities, LLC a Dallas-based oil and gas focused merchant bank to assist in exploring alternatives to maximize shareholder value. Two shareholders of the Company each advanced $10,000 to the Company for a deposit paid to Petro Capital.

Item 3. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

We evaluated the effectiveness of our disclosure controls and procedures ("Disclosure Controls") as of the end of the quarter ended September 30, 2006. This evaluation ("Controls Evaluation") was done by the President (Chief Executive Officer) and Chief Financial Officer.

Disclosure Controls are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 ("Exchange Act") is recorded processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure Controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our CEO and CFO, does not expect that our Disclosure Controls or our internal controls over financial reporting ("Internal Controls") will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of a control system are met. Further, any control system reflects limitations on resources,

and the benefits of a control system must be considered relative to its costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Castleguard have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of a control. A design of a control system is also based upon certain assumptions about potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Based upon the Controls Evaluation, our CEO and CFO has concluded that, subject to the limitations noted above, the Disclosure Controls are effective in providing reasonable assurance that material information relating to Castleguard is made known to management on a timely basis during the period when our periodic reports are being prepared.

(b) Changes in internal controls.

Internal control over financial reporting is a framework incorporating processes designed to assure that transactions are booked properly initially and find their way to the appropriate place on the Company's financial statements. There were no changes in our internal control over financial reporting that occurred during the third quarter of 2006 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Not Applicable

Item 2. Unregistered Sales of Equity 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.

November 20, 2006 /s/ Harvey Jury

By: Harvey Jury, Director and President

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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