ALLIED RESOURCES INC
Form 10-Q
May 20, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended **March 31, 2014**.

o

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from

to

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Commission file number: **000-29321**

ALLIED RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Nevada

000-31390

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

1403 East 900 South, Salt Lake City, Utah 84105

(Address of principal executive offices) (Zip Code)

(801) 582-9609

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. The number of shares outstanding of the issuer s common stock, $0.001 par value (the only class of voting stock), at May 20, 2014, was 5,653,011.

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PART I FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

As used herein, the terms Allied, we, our, us, it, and its refer to Allied Resources, Inc., a Nevada corporation, unless otherwise indicated. In the opinion of management, the accompanying unaudited financial statements included in this Form 10-Q reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of operations for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

ALLIED RESOURCES, INC.

BALANCE SHEETS

March 31,

December 31,

2014

2013

ASSETS

(Unaudited)

(Audited)

Current assets:

Cash

$

1,386,364

1,390,041

Accounts receivable

47,067

41,800

Total current assets

1,433,431

1,431,841

Oil and gas properties (proven), net (successful

efforts method)

658,893

665,560

Deposits

704,701

704,701

Total assets

$

2,797,025

2,802,102

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable

$

38,437

12,857

Total current liabilities

38,437

12,857

Asset retirement obligation

215,637

213,001

Total liabilities

254,074

225,858

Commitments and contingencies

Stockholders' equity:

Common stock, $.001 par value; 50,000,000 shares

authorized, 5,653,011 issued and outstanding

5,653

5,653

Additional paid-in capital

9,916,458

9,916,458

Accumulated deficit

(7,379,160)

(7,345,867)

Total stockholders' equity

2,542,951

2,576,244

Total liabilities and stockholders' equity

$

2,797,025

2,802,102

The accompanying notes are an integral part of these financial statements

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ALLIED RESOURCES, INC.

UNAUDITED CONDENSED STATEMENTS OF OPERATIONS

Three Months Ended March 31, 2014 and 2013

2014

2013

Oil and gas revenues

$

131,224

137,980

Operating expenses:

Production costs

90,625

74,962

Depletion and amortization

6,667

12,329

General and administrative expenses

67,743

65,321

165,035

152,612

Loss from operations

(33,811)

(14,632)

Interest income

518

785

Loss before provision for income taxes

(33,293)

(13,847)

Provision for income taxes

-

-

Net loss

$

(33,293)

(13,847)

Loss per common share - basic and diluted

$

(0.01)

-

Weighted average common shares - basic and diluted

5,653,000

5,653,000

The accompanying notes are an integral part of these financial statements

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ALLIED RESOURCES, INC.

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

Three Months Ended March 31, 2014 and 2013

2014

2013

Cash flows from operating activities:

Net loss

$

(33,293)

(13,847)

Adjustments to reconcile net loss to net

cash used in operating activities:

Depletion and amortization

6,667

12,329

Stock option compensation expense

-

9,658

Accretion expense

2,636

2,511

Increase in:

Accounts receivable

(5,267)

(39,214)

Increase (decrease) in:

Accounts payable

25,580

(2,372)

Net cash used in operating activities

(3,677)

(30,935)

Cash flows from investing activities:

-

-

Cash flows from financing activities:

-

-

Net decrease in cash

(3,677)

(30,935)

Cash, beginning of year

1,390,041

1,323,032

Cash, end of year

$

1,386,364

1,292,097

The accompanying notes are an integral part of these financial statements

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ALLIED RESOURCES, INC.

CONDENSED NOTES TO UNAUDITED FINANCIAL STATEMENTS

March 31, 2014

Note 1 Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared by management in accordance with the instructions in Form 10-Q and, therefore, do not include all information and footnotes required by generally accepted accounting principles and should, therefore, be read in conjunction with the Company s Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission. These statements do include all normal recurring adjustments which the Company believes necessary for a fair presentation of the statements. The interim operations are not necessarily indicative of the results to be expected for the full year ended December 31, 2014.

Note 2 Additional Footnotes Included By Reference

There have been no material changes in the information disclosed in the notes to the financial statements included in the Company s Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission. Therefore, those footnotes are included herein by reference.

Note 3 Subsequent Events

The Company evaluated its March 31, 2014 financial statements for subsequent events through the date the financial statements were issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

ITEM 2.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

This *Management s Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this quarterly report contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can also be identified by words such as anticipates, expects, believes, plans, predicts, and similar terms. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include but are not limited to those discussed in the subsection entitled *Forward-Looking Statements and Factors That May Affect Future Results and Financial Condition* below. The following discussion should be read in conjunction with our financial statements and notes thereto included in this report. Our fiscal year end is December 31. All information presented herein is based on the three month periods ended March 31, 2014 and March 31, 2013.

ALLIED

Allied is an independent oil and natural gas producer involved in the exploration, development, production and sale of oil and gas derived from properties located in Calhoun and Ritchie Counties, West Virginia, and Goliad, Edwards and Jackson Counties, Texas.

Discussion and Analysis

General

Allied intends to utilize available cash to acquire additional oil and gas producing properties and to implement improved production practices on existing wells to increase production and expand reserves where practicable. Allied believes that it can achieve production growth while expanding reserves through improved exploitation of its existing inventory of wells by disposing of non-productive wells and enhancing producing wells. An evaluation for this objective of our existing portfolio of oil and gas properties is constantly under consideration. Allied also intends to continue to expand non-operated and explore opportunities for operated acquisitions of additional oil or gas producing properties.

Recovery from producing wells is consistently evaluated to consider cost-efficient work-over methods designed to improve the performance of the wells. When considering the drilling of new wells, we conduct a geological review of the prospective area, in cooperation with the responsible independent operator, to determine the potential for oil and gas. Our own consultants then review available geophysical data (generally seismic and gravity data) and opine as to the prospect for success. In the event that our evaluation of available geophysical data indicates that the target has significant accumulations of oil and gas, we then consider the economic feasibility of drilling. The presence of oil and gas for any specific target cannot guarantee economic recovery. Production depends on many factors including drilling and completion costs, the distance to pipelines and pipeline pressure, current energy prices, accessibility to the site, and whether the project is developmental or solely a wildcat prospect.

Allied s business development strategy is prone to significant risks and uncertainties certain of which can have an immediate impact on its efforts to realize positive net cash flow and deter future prospects of production growth. Historically Allied has not been able to generate sufficient cash flow from operations to sustain operations and fund necessary exploration or development costs. Therefore, there can be no assurance that the wells currently producing will provide sufficient cash flows to continue to sustain operations. Should Allied be unable to generate sufficient cash flow from existing properties, it may have to sell properties or interests in such properties or seek debt or equity financing to maintain operations.

Allied s financial condition, results of operations and the carrying value of its oil and natural gas properties depends primarily upon the prices it receives for oil and natural gas production and the quantity of that production. Oil and natural gas prices historically have been volatile and are likely to continue to be volatile in the future. Price volatility can immediately affect Allied s available cash flow which can in turn impact the availability of net cash flow for future capital expenditures. A drop in oil and natural gas prices can also incur a write down of the carrying value of our properties as can a decrease in production. Allied s future success will depend on oil and natural gas prices and the quantity of production. Since production leads to the depletion of oil and gas reserves, Allied s ability to develop or acquire additional economically recoverable oil and gas reserves is vital to its future success. Unless Allied can obtain additional reserves, current production will continue to decline, which will lead to further reductions in revenue.

West Virginia Well Information

Allied owns varying interests in a total of 145 wells in West Virginia on several leases held by an independent operator. Some leases contain multiple wells. All the wells in which we have an interest are situated on developed acreage spread over 3,400 acres in Ritchie and Calhoun Counties. Depth of the producing intervals varies from 1,730 ft to 5,472 ft. Many of our wells are situated on the same leases and as such share production equipment in order to minimize lease operating costs.

Our working interest is defined as interest in oil and gas that includes responsibility for all drilling, developing, and operating costs varying from 18.75% to 75%. Our net revenue interest is defined as that portion of oil and gas production revenue after deduction of royalties, varying from 15.00% to 65.625%.

Texas Well Information

Allied owns varying interests in a total of 10 wells in Texas on four leases held by independent operators. All the wells in which we have an interest are situated on developed acreage spread over 2,510 acres in Goliad, Edwards and Jackson Counties. Depth of the producing intervals varies from 7,600 ft to 9,600 ft. Our working interest is defined as interest in oil and gas that includes responsibility for all drilling, developing, and operating costs varying from 3.73% to 21%. Our net revenue interest is defined as that portion of oil and gas production revenue after deduction of royalties, varying from 3.9388% to 12.75%.

Exploration, Development and Operations

Allied intends to continue to purchase non-operated oil and gas producing properties, acquire oil and gas leases that it will operate and implement improved production efficiencies on existing wells. Our criteria for purchasing oil and gas producing properties is defined by short term returns on investment, long term growth in revenue, and development potential, while our criteria for acquiring oil and gas leases is predicated on a proven record of historical production and our own capacity to operate any given field. The recent increase in prices for oil has decreased the number of opportunities available to us due to our relatively limited cash position and the relatively low price paid for natural gas on a historical basis continues to sway us away from prospective natural gas activity. We do however continue to seek out prospective oil producing properties that meet our acquisition criteria for a price that is consistent with competing forecasts for energy prices going forward into a volatile market.

We are further considering future prospects for exploration of the virtually untapped Marcellus and Utica shale formations that underlie Allied s oil and gas interests in West Virginia, particularly in Ritchie County. The Marcellus and Utica shale structures have formed under much of Pennsylvania, Ohio, New York, West Virginia and adjacent states to become a prospectively major reservoir for natural gas recovery. Drilling by other operators in Ritchie County has indicated successful rates of recovery and our own open hole well logs indicate the presence of potentially productive Marcellus shale at a depth of 6,000 feet. However, since exploration of the Marcellus and Utica shale in our area is relatively recent no natural gas reserves underlying our interests have been determined. Our future plans for exploring these shale formations are further tempered by the high risk/reward ratio of exploratory drilling in the near term based on anticipated pricing for natural gas over the next five years.

Results of Operations

During the period from January 1, 2014 through March 31, 2014, Allied was engaged in evaluating a major acquisition opportunity in the State of New Mexico and several less significant opportunities at different locations in the State of Texas, examining the operating efficiencies of existing wells, overseeing the operation of its oil and gas assets by independent operators and seeking to acquire oil and gas producing assets. The operation and maintenance of Allied s oil and gas operations is wholly dependent on the services provided by five different independent operators. While the services provided by these operators have proven adequate, the fact that Allied is dependent on the operations of third parties to maintain its operations and produce revenue does impact its own ability to realize a net profit.

For the fiscal quarter ended March 31, 2014, Allied realized a net loss due primarily to the decrease in oil and natural gas production and the increase in production expenses over that period. Allied believes that the immediate key to its ability to return to profitability is that energy prices rise and production increases. Should oil and gas prices rise, production increase and expenses remain relatively consistent, Allied believes that it will be able to return to net profits in future periods.

THREE MONTHS ENDED MARCH 31

2014

2013

CHANGE #   CHANGE %

AVERAGE DAILY PRODUCTION

Oil (bbls/day)

4

5

(1)

-20%

Natural gas (mcf/day)

134

190

(56)

-29%

Barrels of oil equivalent (boe/day)

26

37

(10)

-28%

PROFITABILITY

Petroleum and natural gas revenue

$

131,224 $

137,980

(6,756)

-5%

Net Revenue

131,224

137,980

(6,756)

-5%

Production and operating costs

90,625

74,962

15,663

21%

Field netback

40,599

63,018

(22,419)

-36%

G&A

67,743

65,321

2,422

4%

Net cash flow from operations

(27,144)

(2,303)

(24,841)

-1,079%

Depletion, depreciation and other charges

6,667

12,329

(5,662)

-46%

Future income taxes

-

-

-

0%

Net loss from operations

$

(33,811) $

(14,632)

(19,179)

-131%

PROFITABILITY PER BOE

Oil and gas revenue (average selling price)

55.37

41.81

13.66

32%

Production and operating costs

38.24

22.72

15.52

68%

Field netback ($/boe)

17.13

19.10

(1.97)

-10%

Net loss ($/boe)

(14.27)

(4.43)

(9.83)

-222%

Cash flow from operations ($/boe)

(11.45)

(0.70)

(10.76)

-1,541%

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Revenue

Revenue for the three month period ended March 31, 2014, decreased to $131,244 from $137,980 for the comparable period ended March 31, 2013, a decrease of 5%. The decrease in revenue over the comparable three month periods can be attributed to the decrease in natural gas and oil production over the comparative periods. Allied believes that revenue will continue to decline over near term future periods unless the productivity of its resources increases through production acquisitions or the successful work-over of existing wells.

Net Losses

Net losses for the three month period ended March 31, 2014, increased to $33,293 as compared to net losses of $13,847 for the three month period ended March 31, 2013, an increase of 140%. The increase in net losses over the comparable three month period can be attributed to the decrease in oil and gas revenues and the increase in operating expenses in the current period. Allied expects to return to net income in future periods as revenues are expected to increase with higher pricing for natural gas products, and increased productivity in the field while operating expenses are expected to remain relatively consistent.

Operating Expenses

General and administrative expenses for the three month period ended March 31, 2014 increased to $67,743from $65,321 for the comparable three month period ended March 31, 2013, an increase of 4%. The increase in general administrative expenses over the comparable three month periods can be primarily attributed to expenses associated with due diligence expenses required for field prospecting. Allied expects that general and administrative expenses will remain relatively consistent in future periods.

Depletion expenses for the three month periods ended March 31, 2014, and March 31, 2013 were $6,667 and $12,329 respectively, a decrease of 46%. Depletion expenses are expected to continue to decrease in relation to the aging oil and gas assets.

Production costs for the three month periods ended March 31, 2014, and March 31, 2013 were $90,625 and $74,962 respectively, an increase of 21%. Production costs include the cost of maintaining the wells, severance taxes, miscellaneous expenses for soap, solvent, gasoline or electricity and expenses such as those incurred in swabbing, dozer work or rig time. The increase in production costs over the comparable three month periods can be attributed to work over costs associated with producing wells. Allied expects that production costs will continue to increase over future periods as existing wells age and require more vigorous maintenance.

Income Tax Expense

As of December 31, 2013, Allied has net operating loss (NOL) carry forwards of approximately $2,155,000. Should substantial changes in our ownership occur there would be an annual limitation of the amount of NOL carry forward which could be utilized. The ultimate realization of these carry forwards is due, in part, on the tax law in effect at the time and future events, which cannot be determined. During the year ended December 31, 2013 a valuation allowance was recorded against this net operating loss carried forward.

Capital Expenditures

Allied made no capital expenditures on property or equipment for the three months ended March 31, 2014 or 2013.

Liquidity and Capital Resources

Allied had a working capital surplus of $1,394,994 as of March 31, 2014 and has funded its cash needs since inception with revenues generated from operations, debt instruments and private equity placements. Existing working capital and anticipated cash flow are expected to be sufficient to fund operations over the next twelve months.

Current assets as of March 31, 2014 were $1,433,431 which consisted of $1,386,364 in cash and $47,067 in accounts receivable. Total assets were $2,797,025 which consisted of current assets, proven oil and gas properties of $658,893 and deposits of $704,701.

Current liabilities as of March 31, 2014 were $38,437 which consisted of accounts payable. Total liabilities were $254,074 which consisted of current liabilities and an asset retirement obligation of $215,637.

Stockholders equity as of March 31, 2014 was $2,542,951.

Net cash used in operating activities for the three month period ended March 31, 2014 was $3,677 as compared to net cash used in operating activities of $30,935 for the three month period ended March 31, 2013. Net cash used in operating activities in the current period can be attributed primarily to a number of items that are book expense items which do not affect the total amount relative to actual cash used including depletion and amortization, and accretion expense. Balance sheet accounts that actually affect cash, but are not income statement related items that are added or deducted to arrive at net cash used in operations, include accounts receivable and accounts payable. Allied expects to transition to cash flow provided by operations in future periods as net losses and accounts receivable are expected to decrease in the near term.

Cash flow used in investing activities for the three month periods ended March 31, 2014 and March 31, 2013 was zero. Allied expects to use cash flow in investing activities over future periods as the it continues to evaluate existing wells, identify exploration opportunities and considers additional acquisitions which activities will require investment on consummation.

Cash flow from financing activities for the three month periods ended March 31, 2014 and March 31, 2013 was zero. Allied does not expect to realize cash flow from financing activities in the near term.

Allied has adopted a stock option plan pursuant to which it can grant up to 750,000 options to purchase shares of its common stock to employees, directors, officers, consultants or advisors on the terms and conditions set forth therein. As of March 31, 2014, 600,000 options had been granted, all of which have vested.

Allied has no lines of credit or other bank financing arrangements in place.

Allied had no commitments for future capital expenditures that were material at March 31, 2014.

Allied has no defined benefit plan or contractual commitment with any of its officers or directors except each members participation in our stock option plan and an executive agreement with its sole executive officer that provides for a monthly fee and participation in our stock option plan.

Allied has no current plans for the purchase or sale of any plant or equipment.

Allied has no current plans to make any changes in the number of employees.

Allied does not expect to pay cash dividends in the foreseeable future.

Off Balance Sheet Arrangements

As of March 31, 2014, Allied has no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to stockholders.

Forward Looking Statements and Factors That May Affect Future Results and Financial Condition

The statements contained in the section titled *Management s Discussion and Analysis of Financial Condition and Results of Operations*, with the exception of historical facts, are forward looking statements within the meaning of Section 27A of the Securities Act. We are ineligible to rely on the safe-harbor provision of the Private Litigation Reform Act of 1995 for forward looking statements made in this current report. Forward looking statements reflect our current expectations and beliefs regarding our future results of operations, performance, and achievements. These statements are subject to risks and uncertainties and are based upon assumptions and beliefs that may or may not materialize. These statements include, but are not limited to, statements concerning:

§ our anticipated financial performance and business plan;

§ uncertainties related to production volumes of oil and gas;

§ the sufficiency of existing capital resources;

§ uncertainties related to future oil and gas prices;

§ uncertainties related the quantity of our reserves of oil and gas;

§ the volatility of the stock market and;

§ general economic conditions.

We wish to caution readers that our operating results are subject to various risks and uncertainties that could cause our actual results to differ materially from those discussed or anticipated including the factors set forth in the section entitled Risk Factors included elsewhere in this report. We also wish to advise readers not to place any undue reliance on the forward looking statements contained in this report, which reflect our beliefs and expectations only as of the date of this report. We assume no obligation to update or revise these forward looking statements to reflect new events or circumstances or any changes in our beliefs or expectations, other that is required by law.

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Critical Accounting Policies and Estimates

Accounting for Oil and Gas Property Costs. Allied (i) follows the successful efforts method of accounting for the costs of its oil and gas properties, (ii) amortizes such costs using the units of production method and (iii) evaluates its proven properties for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. Adverse changes in conditions (primarily gas price declines) could result in permanent write-downs in the carrying value of oil and gas properties as well as non-cash charges to operations that would not affect cash flows.

Estimates of Proved Oil and Gas Reserves. An independent petroleum engineer annually estimates Allied s proven reserves. Reserve engineering is a subjective process that is dependent upon the quality of available data and the interpretation thereof. In addition, subsequent physical and economic factors such as the results of drilling, testing, production and product prices may justify revision of such estimates. Therefore, actual quantities, production timing, and the value of reserves may differ substantially from estimates. A reduction in proved reserves would result in an increase in depreciation, depletion and amortization expense.

Estimates of Asset Retirement Obligations. In accordance with ASC 410, Allied makes estimates of future costs and the timing thereof in connection with recording its future obligations to plug and abandon wells. Estimated abandonment dates will be revised in the future based on changes to related economic lives, which vary with product prices and production costs. Estimated plugging costs may also be adjusted to reflect changing industry experience. Increases in operating costs and decreases in product prices would increase the estimated amount of the obligation and increase depreciation, depletion and amortization expense. Cash flows would not be affected until costs to plug and abandon were actually incurred.

Critical Accounting Policies

In Note 1 to the audited financial statements for the years ended December 31, 2013 and 2012, included in our Form 10-K, Allied discusses those accounting policies that are considered to be significant in determining the results of operations and its financial position. Allied believes that the accounting principles utilized by it conform to accounting principles generally accepted in the United States.

The preparation of financial statements requires Allied s management to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. By their nature, these judgments are subject to an inherent degree of uncertainty. On an on-going basis, Allied evaluates estimates. Allied bases its estimates on historical experience and other facts and circumstances that are believed to be reasonable, and the results form the basis for making judgments about the carrying value of assets and liabilities. The actual results may differ from these estimates under different assumptions or conditions.

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Recent Accounting Pronouncements

In July 2013, the FASB released ASU 2013-11 Accounting Standards Update 2013-11, Income Taxes Topic 740: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a similar Tax Loss, or a Tax Credit Carry forward Exists. The amendments in this Update require an entity with net operating losses carry forwards or tax credit carry forwards which are not available or intended to be used, that uncertain tax benefits should not be netted against deferred tax assets for these items. Otherwise, the unrecognized tax benefit should be presented as a reduction to the related deferred tax asset. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. We adopted this ASU as of January 1, 2014 and there was no material impact to our financial statements.

Other pronouncements issued by the FASB or other authoritative accounting standards groups with future effective dates are either not applicable or are not expected to be significant to the financial statements of Allied.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this report on Form 10-Q, an evaluation was carried out by Allied s management, with the participation of the chief executive officer and chief financial officer, of the effectiveness of Allied s disclosure controls and procedures (as defined in Rules 13a-15(e) of the Securities Exchange Act of 1934 (Exchange Act)). Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Commission s rules and forms and that such information is accumulated and communicated to management, including the chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures.

Based on that evaluation, Allied s management concluded, as of the end of the period covered by this report, that Allied s disclosure controls and procedures were effective in recording, processing, summarizing, and reporting information required to be disclosed, within the time periods specified in the Commission s rules and forms, and that such information was accumulated and communicated to management, including the chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the period ended March 31, 2014, that materially affected, or are reasonably likely to materially affect, Allied s internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS

None.

ITEM 1A.

RISK FACTORS

Our future operating results are highly uncertain. Before deciding to invest in us or to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information contained in this quarterly report. If any of these risks actually occur, our business, financial condition or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you might lose all or part of your investment.

Risks Related to Allied s Business

We have a history of significant operating losses, which losses may reoccur in the future.

Since our inception in 1979, our expenses have often exceeded our income, resulting in losses and an accumulated deficit of $7,345,867 at December 31, 2013, which had increased to $7,379,160 at March 31, 2014. We recorded a net loss of $33,293 for the three month period ended March 31, 2014 and may continue to realize future net losses if revenues do not increase. Our expectation of profitability depends on higher energy prices and increased production through exploration, development or acquisition. Allied s success in this continued endeavor can in no way be assured.

Oil and natural gas prices are volatile. Any substantial decrease in prices would adversely affect our financial results.

Allied s future financial condition, results of operations and the carrying value of our oil and natural gas properties depend primarily upon the prices we receive for oil and natural gas production. Oil and natural gas prices historically have been volatile and are likely to continue to be volatile in the future. Allied s cash flow from operations is highly dependent on the prices we receive for oil and natural gas. This price volatility also affects the amount of Allied s cash flow available for capital expenditures and our ability to borrow money or raise additional capital. The prices for oil and natural gas are subject to a variety of additional factors that are beyond our control. These factors include:

§ the level of consumer demand for oil and natural gas;

§ the domestic and foreign supply of oil and natural gas;

§ the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;

§ the price of foreign oil and natural gas;

§ domestic governmental regulations and taxes;

§ the price and availability of alternative fuel sources;

§ weather conditions;

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§ market uncertainty;

§ political conditions or hostilities in energy producing regions, including the Middle East; and

§ worldwide economic conditions.

These factors and the volatility of the energy markets generally make it extremely difficult to predict future oil and natural gas price movements with any certainty. Declines in oil and natural gas prices would not only reduce revenue, but could reduce the amount of oil and natural gas that Allied can produce economically and, as a result, could have a material adverse effect on our financial condition, results of operations and reserves. Should the oil and natural gas industry experience significant price declines, Allied may, among other things, be unable to meet our financial obligations or make planned expenditures.

Allied s future performance depends on its ability to find or acquire additional oil or natural gas reserves.

Unless Allied successfully replaces the reserves that it produces, defined reserves will decline, resulting in a decrease in oil and natural gas production, that will produce lower revenues, in turn decreasing cash flows from operations. Allied has historically obtained the majority of its reserves through acquisition. The business of exploring for, developing or acquiring reserves is capital intensive. Allied may not be able to obtain the necessary capital to acquire additional oil or natural gas reserves if cash flows from operations are reduced, and access to external sources of capital is unavailable. Should Allied not make significant capital expenditures to increase reserves it will not be able to maintain current production rates and expenses will continue to exceed revenue.

Climate change legislation or regulations restricting emissions of greenhouse gases could result in increased operating costs and reduced demand for the oil and natural gas that we produce.

On December 15, 2009, the U.S. Environmental Protection Agency (EPA) officially published its findings that emissions of carbon dioxide, methane and other greenhouse gases present an endangerment to human health and the environment because emissions of such gases are contributing to warming of the Earth s atmosphere and other climatic changes. These findings by the EPA allow the agency to proceed with the adoption and implementation of regulations that would restrict emissions of greenhouse gases under existing provisions of the federal Clean Air Act. In late September 2009, the EPA had proposed two sets of regulations in anticipation of finalizing its findings that would require a reduction in emissions of greenhouse gases from motor vehicles and that could also lead to the imposition of greenhouse gas emission limitations in Clean Air Act permits for certain stationary sources. In addition, on September 22, 2009, the EPA issued a final rule requiring the reporting of greenhouse gas emissions from specified large greenhouse gas emission sources in the United States beginning in 2011 for emissions occurring in 2010. The adoption and implementation of any regulations over greenhouse gases could require us to incur costs to reduce emissions of greenhouse gases associated with our operations or could adversely affect demand for the oil and natural gas that we produce.

On June 26, 2009, the U.S. House of Representatives passed the American Clean Energy and Security Act of 2009, or ACESA, which would establish an economy-wide cap-and-trade program to reduce U.S. emissions of greenhouse gases including carbon dioxide and methane. ACESA would require a 17% reduction in greenhouse gas emissions from 2005 levels by 2020 and just over an 80% reduction of such emissions by 2050. Under this legislation, the EPA would issue a capped and steadily declining number of tradable emissions allowances to certain major sources of greenhouse gas emissions so that such sources could continue to emit greenhouse gases into the atmosphere. These allowances would be expected to escalate significantly in cost over time. The net effect of ACESA will be to impose increasing costs on the combustion of carbon-based fuels such as oil, refined petroleum products, and natural gas. The U.S. Senate has begun work on its own legislation for restricting domestic greenhouse gas emissions and the President Obama Administration has indicated its support of legislation to reduce greenhouse gas emissions through an emission allowance system. Although it is not possible at this time to predict when the Senate may act on climate change legislation or how any bill passed by the Senate would be reconciled with ACESA, any future federal laws or implementing regulations that may be adopted to address greenhouse gas emissions could adversely affect demand for the oil and natural gas that we produce.

The results of our operations are wholly dependent on the production and maintenance efforts of independent operators.

The operation and maintenance of our oil and natural gas operations is wholly dependent on independent local operators. While the services provided by operators of our properties in the past have proven adequate for the successful operation of our oil and natural gas wells, the fact that we are dependent on operations of third parties to produce revenue from our assets could restrict our ability to continue generating a net profit on operations.

Risks Related to the Company s Stock

The market for our stock is limited and our stock price may be volatile.

The market for our common stock is limited due to low trading volumes and the small number of brokerage firms acting as market makers. The average daily trading volume for our stock has varied significantly from week to week and from month to month, and the trading volume often varies widely from day to day. Due to these limitations there is volatility in the market price and tradability of our stock, which may cause our shareholders difficulty in selling their shares in the market place.

Allied has not paid dividends to the shareholders of its common stock.

Allied has not paid any dividends to the shareholders of its common stock and has no intention of paying dividends in the foreseeable future. Any future dividends would be at the discretion of our board of directors and would depend on, among other things, future earnings, our operating and financial condition, our capital requirements, and general business conditions.

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Allied may require additional capital funding.

Allied may require additional funds, either through additional equity offerings or debt placements, in order to expand our operations. Such additional capital may result in dilution to our current shareholders. Further, our ability to meet short-term and long-term financial commitments will depend on future cash. There can be no assurance that future income will generate sufficient funds to enable us to meet our financial commitments.

If the market price of our common stock declines as the selling security holders sell their stock, selling security holders or others may be encouraged to engage in short selling, depressing the market price.

The significant downward pressure on the price of the common stock as the selling security holders sell material amounts of common stock could encourage short sales by the selling security holders or others. Short selling is the selling of a security that the seller does not own, or any sale that is completed by the delivery of a security borrowed by the seller. Short sellers assume that they will be able to buy the stock at a lower amount than the price at which they sold it short. Significant short selling of a company s stock creates an incentive for market participants to reduce the value of that company s common stock. If a significant market for short selling our common stock develops, the market price of our common stock could be significantly depressed.

Allied s common stock is currently deemed to be penny stock , which makes it more difficult for investors to sell their shares.

Allied s common stock is and will be subject to the penny stock rules adopted under section 15(g) of the Exchange Act. The penny stock rules apply to companies whose common stock is not listed on the NASDAQ Stock Market or other national securities exchange and trades at less than $5.00 per share or that have tangible net worth of less than $5,000,000 ($2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than established customers complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. If Allied remains subject to the penny stock rules for any significant period, it could have an adverse effect on the market, if any, for Allied s securities. If Allied s securities are subject to the penny stock rules, investors will find it more difficult to dispose of Allied s securities.

ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3.

DEFAULTS ON SENIOR SECURITIES

None.

ITEM 4.

MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5.

OTHER INFORMATION

None.

ITEM 6.

EXHIBITS

Exhibits required to be attached by Item 601 of Regulation S-K are listed in the Index to Exhibits on page 21 of this Form 10-Q, and are incorporated herein by this reference.

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.

Allied Resources, Inc.

Date

/s/ Ruairidh Campbell

May 20, 2014

Ruairidh Campbell

Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer and Director

INDEX TO EXHIBITS

Exhibit

Description

3.1*

Articles of Incorporation dated February 12, 2002 (incorporated by reference to the Form 10-SB/A filed on April 21, 2003).

3.2 *

Bylaws (incorporated by reference to the Form 10-SB/A filed on April 21, 2003).

10.1 *

Oil and Gas Well Operating Agreement between Allied and Allstate Energy Corporation dated May 1, 1996 (incorporated by reference to the Form 10SB/A filed on April 21, 2003).

10.2 *

Amendments to Operating Agreements between Allied and Allstate Energy Corporation dated May 10, 1996 (incorporated by reference to the Form 10SB/A filed on April 21, 2003).

10.3 *

Form Gas Purchase Agreement (incorporated by reference to the Form 10SB/A filed on April 21, 2003).

10.4*

Consulting Agreement between Allied and Ruairidh Campbell dated July 1, 2008 (incorporated by reference to the Form 10-Q filed on November 14, 2008).

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Code of Ethics adopted May 3, 2004 (incorporated by reference to the Form 10-KSB filed on May 26, 2004).

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<u>Certification of the Chief Executive Officer</u> and Chief Financial Officer pursuant to Rule 13a-14 of the Securities and Exchange Act of 1934 as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (attached).

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<u>Certification of the Chief Executive Officer and Chief Financial Officer</u> pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (attached).

99.1 *

Allied Resources, Inc. 2008 Stock Option Plan (incorporated by reference to the Form 10-Q filed on November 14, 2008).

99.2*

Reserve report from Sure Engineering, LLC (incorporated by reference to the Form 10-K filed on April 15, 2013).

101. INS

XBRL Instance Document

101. PRE

XBRL Taxonomy Extension Presentation Linkbase

101. LAB

XBRL Taxonomy Extension Label Linkbase

101. DEF

XBRL Taxonomy Extension Label Linkbase

101. CAL

XBRL Taxonomy Extension Label Linkbase

101. SCH

XBRL Taxonomy Extension Schema

*

Incorporated by reference to previous filings of Allied.

Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed furnished and not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, or deemed furnished and not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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