

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2024

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. **000-55912**

**ROYALE ENERGY, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**81-4596368**

(I.R.S. Employer  
Identification No.)

**1530 Hilton Head Rd, Suite 205**

**El Cajon, CA 92021**

(Address of principal executive offices) (Zip Code)

**(619) 383-6600**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None.

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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

At Aug 2, 2024, a total of 71,863,829 shares of registrant's common stock were outstanding.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ROYALE ENERGY, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS**

<b>ASSETS</b>	<b>June 30, 2024</b>	<b>December 31, 2023</b>
	<b>(unaudited)</b>	
Current Assets		
Cash and Cash Equivalents	\$ 1,449,068	\$ 2,202,521
Restricted Cash	4,182,800	3,325,000
Other Receivables, net	698,006	1,036,401
Revenue Receivables	394,383	878,378
Prepaid Expenses	620,600	558,169
Deferred Drilling Costs	644,443	1,669,149
<b>Total Current Assets</b>	<b>7,989,300</b>	<b>9,669,618</b>
Right of Use Assets - Leases	210,421	254,008
Other Assets	589,865	589,865
Oil and Gas Properties, (Successful Efforts Basis), Equipment and Fixtures, net	4,967,971	2,401,902
<b>Total Assets</b>	<b>\$ 13,757,557</b>	<b>\$ 12,915,393</b>

See notes to unaudited condensed consolidated financial statements.

**ROYALE ENERGY, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>June 30, 2024</b>	<b>December 31, 2023</b>
	<b>(unaudited)</b>	
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Expenses	\$ 6,116,199	\$ 5,482,074
Royalties Payable	611,833	612,925
Due to RMX Resources, LLC	23,087	23,087
Accrued Liabilities	432,320	215,693
Asset Retirement Obligation - Current	675,000	675,000
Deferred Drilling Obligation	9,465,832	9,761,927
Operating Leases - Current	80,118	83,230
<b>Total Current Liabilities</b>	<b>17,404,389</b>	<b>16,853,936</b>
<b>Noncurrent Liabilities:</b>		
Accrued Liabilities - Long Term	1,306,605	1,306,605
Accrued Unpaid Guaranteed Payments	1,616,205	1,616,205
Note Payable to Related Parties	1,400,000	-
Operating Leases - Long-Term	130,200	171,439
Asset Retirement Obligation	4,146,151	4,151,847
<b>Total Liabilities</b>	<b>26,003,550</b>	<b>24,100,032</b>
<b>Mezzanine Equity:</b>		
Convertible Preferred Stock, Series B, \$10 par value, 3.5% annual dividend, 2,466,455 and 2,444,885 shares issued and outstanding as of June 30, 2024 and December 31, 2023 respectively.	24,664,543	24,448,850
<b>Stockholders' Equity (Deficit):</b>		
Common Stock, .001 Par Value, 280,000,000 Shares Authorized, 71,863,829 and 70,564,188 shares issued and outstanding as of June 30, 2024 and December 31, 2023.	71,863	70,564
Additional Paid in Capital	54,653,936	54,619,236
Accumulated Deficit	(91,636,335)	(90,323,289)
<b>Total Stockholders' Equity (Deficit)</b>	<b>(36,910,536)</b>	<b>(35,633,489)</b>
<b>Total Liabilities and Stockholders' Equity (Deficit)</b>	<b>\$ 13,757,557</b>	<b>\$ 12,915,393</b>

See notes to unaudited condensed consolidated financial statements.

**ROYALE ENERGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>
<b>Revenues:</b>				
Oil, NGL and Gas Sales	\$ 545,746	\$ 430,293	\$ 1,189,411	\$ 988,744
Supervisory Fees and Other	13,989	11,299	30,258	111,966
Total Revenues	<u>559,735</u>	<u>441,592</u>	<u>1,219,669</u>	<u>1,100,710</u>
<b>Costs and Expenses:</b>				
Oil and Gas Lease Operating	347,371	439,005	780,125	1,102,095
Depreciation, Depletion and Amortization	110,153	114,475	197,179	173,907
Well Equipment Write Down	-	-	-	9,840
Lease Impairment	6,845	-	63,054	-
Legal and Accounting	62,625	245,251	342,164	273,143
Bad Debt Expense	145,086	-	176,044	-
Marketing	81,781	58,072	141,773	146,891
General and Administrative	380,707	421,688	828,031	878,169
Total Costs and Expenses	<u>1,134,568</u>	<u>1,278,491</u>	<u>2,528,370</u>	<u>2,584,045</u>
Gain (Loss) on Turnkey Drilling	<u>527,715</u>	<u>(254,972)</u>	<u>527,715</u>	<u>1,339,382</u>
Loss From Operations	<u>(47,118)</u>	<u>(1,091,871)</u>	<u>(780,986)</u>	<u>(143,953)</u>
Other Income (Expense):				
Interest Expense	(63,498)	(507)	(99,740)	(1,056)
Other Gain	-	57,003	-	111,978
Total Other Income (Expense)	<u>(63,498)</u>	<u>56,496</u>	<u>(99,740)</u>	<u>110,922</u>
<b>Loss Before Income Tax Expense</b>	<u>(110,616)</u>	<u>(1,035,375)</u>	<u>(880,726)</u>	<u>(33,031)</u>
<b>Net Loss</b>	<u>(110,616)</u>	<u>(1,035,375)</u>	<u>(880,726)</u>	<u>(33,031)</u>
Less: Preferred Stock Dividend	217,099	209,644	432,320	415,200
Net Loss available to common stock	<u>\$ (327,715)</u>	<u>\$ (1,245,019)</u>	<u>\$ (1,313,046)</u>	<u>\$ (448,231)</u>
Shares used in computing Basic Net Loss per share	71,863,529	65,322,646	71,606,757	63,609,320
Basic and Diluted (Loss) Per Share	\$ (0.00)	(0.02)	(0.02)	(0.01)
Shares used in computing Diluted Net Loss per share	71,863,529	65,322,646	71,606,757	63,609,320
Diluted Net Income (Loss) per Share	\$ (0.00)	(0.02)	(0.02)	(0.01)

See notes to unaudited condensed consolidated financial statements.

**ROYALE ENERGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2024, AND 2023**

	<b>For the Six Months Ended</b>	
	<b>June 30, 2024</b>	<b>June 30, 2023</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (880,726)	\$ (33,031)
<b>Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:</b>		
Depreciation, Depletion and Amortization	197,179	173,907
Gain on Turnkey Drilling Programs	(527,715)	(1,339,382)
Lease Impairment	63,054	-
Bad Debt Expense	176,044	-
Well Equipment Write Down	-	9,840
Stock Based Compensation	35,999	108,001
Gain on Other	-	(111,978)
Right of use asset depreciation	5,508	5,499
(Increase) Decrease in:		
Other & Revenue Receivables	646,346	264,719
Prepaid Expenses	(62,431)	(565,490)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(380,356)	(170,389)
Royalties Payable	(1,092)	-
Net Cash Used in Operating Activities	<u>(728,190)</u>	<u>(1,658,304)</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Expenditures for Oil and Gas Properties and Other Capital Expenditures	(3,636,191)	(2,647,274)
Proceeds from Turnkey Drilling Programs	3,075,000	2,622,500
Net Cash Used by Investing Activities	<u>(561,191)</u>	<u>(24,774)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Note Payable to Related Party	1,400,000	-
Principal Payments on Long-Term Debt	(6,272)	(5,895)
Net Cash Provided by (used in) Financing Activities	<u>1,393,728</u>	<u>(5,895)</u>
<b>Net Increase (decrease) in Cash and Cash Equivalents</b>	<b>104,347</b>	<b>(1,688,973)</b>
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	5,527,521	3,900,134
Cash, Cash Equivalents, and Restricted Cash at End of Period	<u>\$ 5,631,868</u>	<u>\$ 2,211,161</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:</b>		
Cash Paid for Interest	<u>\$ 99,740</u>	<u>\$ 1,056</u>
Cash Paid for Taxes	<u>\$ 7,950</u>	<u>\$ 6,150</u>
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING &amp; FINANCING TRANSACTIONS:</b>		
Accounts Payable for Oil and Gas Properties	1,000,000	-
Increase in Capital Accrued Balance	14,481	96,339
Series B Paid-In-Kind Dividends	432,320	415,200

See notes to unaudited condensed consolidated financial statements.

**ROYALE ENERGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2024 AND 2023**  
**(UNAUDITED)**

	<u>Common Stock</u>				
	<u>Number of</u>	<u>Amount</u>	<u>Additional Paid</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares Issued</u>				
	<u>and</u>	<u>Common</u>	<u>APIC</u>	<u>Deficit</u>	<u>Deficit</u>
<u>Outstanding</u>	<u>Amount</u>	<u>ACD</u>	<u>Total</u>		
	<u>Common</u>	<u>Common</u>			
	<u>Shares</u>	<u>Amount</u>	<u>APIC</u>	<u>ACD</u>	<u>Total</u>
December 31, 2022 Balance	61,876,957	\$ 61,876	\$ 54,447,923	\$ (87,646,402)	\$ (33,136,603)
Cashless Warrant Exercise Issuance	3,266,055	3,266	(3,266)	-	-
Stock Issued in lieu of Compensation	2,541,176	2,542	105,459	-	108,001
Preferred Series B 3.5% Dividend	-	-	-	(415,200)	(415,200)
Net Loss	-	-	-	(33,031)	(33,031)
June 30, 2023 Balance	<u>67,684,188</u>	<u>\$ 67,684</u>	<u>\$ 54,550,116</u>	<u>\$ (88,094,633)</u>	<u>\$ (33,476,833)</u>

	<u>Common Stock</u>				
	<u>Number of</u>	<u>Amount</u>	<u>Additional Paid</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares Issued</u>				
	<u>and</u>	<u>Common</u>	<u>APIC</u>	<u>Deficit</u>	<u>Deficit</u>
<u>Outstanding</u>	<u>Amount</u>	<u>ACD</u>	<u>Total</u>		
	<u>Common</u>	<u>Common</u>			
	<u>Shares</u>	<u>Amount</u>	<u>APIC</u>	<u>ACD</u>	<u>Total</u>
December 31, 2023 Balance	70,564,188	\$ 70,564	\$ 54,619,236	\$ (90,323,289)	\$ (35,633,489)
Stock Issued in lieu of Compensation	1,299,641	1,299	34,700	-	35,999
Preferred Series B 3.5% Dividend	-	-	-	(432,320)	(432,320)
Net Loss	-	-	-	(880,726)	(880,726)
June 30, 2024 Balance	<u>71,863,829</u>	<u>\$ 71,863</u>	<u>\$ 54,653,936</u>	<u>\$ (91,636,335)</u>	<u>\$ (36,910,536)</u>

	<u>Common Stock</u>				
	<u>Number of</u>	<u>Amount</u>	<u>Additional Paid</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares Issued</u>				
	<u>and</u>	<u>Common</u>	<u>APIC</u>	<u>Deficit</u>	<u>Deficit</u>
<u>Outstanding</u>	<u>Amount</u>	<u>ACD</u>	<u>Total</u>		
	<u>Common</u>	<u>Common</u>			
	<u>Shares</u>	<u>Amount</u>	<u>APIC</u>	<u>ACD</u>	<u>Total</u>
March 31, 2023 Balance	61,876,957	\$ 61,876	\$ 54,447,923	\$ (86,849,614)	\$ (32,339,815)
Cashless Warrant Exercise Issuance	3,266,055	3,266	(3,266)	-	-
Stock Issued in lieu of Compensation	2,541,176	2,542	105,459	-	108,001
Preferred Series B 3.5% Dividend	-	-	-	(209,644)	(209,644)
Net Loss	-	-	-	(1,035,375)	(1,035,375)
June 30, 2023 Balance	<u>67,684,188</u>	<u>\$ 67,684</u>	<u>\$ 54,550,116</u>	<u>\$ (88,094,633)</u>	<u>\$ (33,476,833)</u>

	<u>Common Stock</u>				
	<u>Number of</u>	<u>Amount</u>	<u>Additional Paid</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares Issued</u>				
	<u>and</u>	<u>Common</u>	<u>APIC</u>	<u>Deficit</u>	<u>Deficit</u>
<u>Outstanding</u>	<u>Amount</u>	<u>ACD</u>	<u>Total</u>		
	<u>Common</u>	<u>Common</u>			
	<u>Shares</u>	<u>Amount</u>	<u>APIC</u>	<u>ACD</u>	<u>Total</u>
March 31, 2024 Balance	71,863,829	\$ 71,863	\$ 54,653,936	\$ (91,308,620)	\$ (36,582,821)
Preferred Series B 3.5% Dividend	-	-	-	(217,099)	(217,099)
Net Loss	-	-	-	(110,616)	(110,616)
June 30, 2024 Balance	<u>71,863,829</u>	<u>\$ 71,863</u>	<u>\$ 54,653,936</u>	<u>\$ (91,636,335)</u>	<u>\$ (36,910,536)</u>

See notes to unaudited condensed consolidated financial statements.

**ROYALE ENERGY, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – BASIS OF PRESENTATION: ACCOUNTING STANDARDS**

**Consolidation**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments necessary to present fairly the Company's financial position and the results of its operations and cash flows for the periods presented.

The accompanying unaudited consolidated financial statements, which include the accounts of Royale Energy, Inc. (sometimes referred to as the "Company" "we," "our," "us," "Royale Energy," or "Royale"), Royale Energy Funds, Inc. ("REF"), and Matrix Oil Management Corporation and its subsidiaries, have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") for interim consolidated financial information pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") under Article 10 of Regulation S-X and the instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in our audited financial statements have been condensed or omitted pursuant to the SEC's rules and regulations. Significant intercompany transactions have been eliminated in the consolidation. In our opinion, all adjustments considered necessary for a fair presentation have been included.

The consolidated balance sheet as of December 31, 2023 was derived from the audited financial statements at that date. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 as filed with the SEC. Operating results for the six months ended June 30, 2024 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2024, or for any other period.

**Liquidity and Going Concern**

The Company's primary sources of liquidity have historically been issuances of common stock, oil and gas sales through ongoing operations and the sale of oil and gas properties. There are factors that give rise to substantial doubt about our ability to meet liquidity demands, and we anticipate that our primary sources of liquidity will be from the issuance of debt and/or equity, the sale of oil and natural gas property participation interests through our normal course of business and the sale of non-strategic assets.

At June 30, 2024, our consolidated financial statements reflect a working capital deficiency of \$9,415,089, and an accumulated deficit of \$91,636,335. We had a net loss of \$880,726 for the six months ended June 30, 2024. These factors indicate that there is substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

Management's plans to alleviate the going concern by implementing cost control measures that include, among other things, the reduction of overhead costs, the sale of non-strategic assets, and, if possible, obtaining additional financing. There is no assurance that additional financing will be available when needed or that we will be able to obtain any financing on terms acceptable to us and whether we will become profitable and generate positive operating cash flow. If we are unable to raise sufficient additional funds, we will have to develop and implement a plan to further extend payables, attempt to extend note repayments, and reduce overhead until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful.

**Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported equity.

**Use of Estimates**

The accompanying financial statements have been prepared in conformity with GAAP and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the estimate of the Company's oil and gas reserves prepared by an independent engineering consultant. Such estimates are subject to numerous uncertainties inherent in the estimation of quantities of proven reserves. Estimated reserves are used in the calculation of depletion, depreciation and amortization, unevaluated property costs, impairment of oil and natural gas properties, estimated future net cash flows, taxes, and contingencies.



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### Revenue Recognition

A significant portion of our revenues are derived from the sale of crude oil, condensate, natural gas liquids (“NGLs”) and natural gas under spot and term agreements with our customers as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Oil & Condensate Sales	\$ 514,240	\$ 359,566	\$ 1,073,598	\$ 707,224
Natural Gas Sales	30,335	69,962	114,070	278,844
NGL Sales	1,171	765	1,743	2,676
Total	\$ 545,746	\$ 430,293	\$ 1,189,411	\$ 988,744

The pricing in our hydrocarbon sales agreements are variable, determined using various published benchmarks which are adjusted for negotiated quality and location differentials. As a result, revenue collected under our agreements with customers is highly dependent on the market conditions and may fluctuate considerably as the hydrocarbon market prices rise or fall. Typically, our customers pay us monthly, within a short period of time after we deliver the hydrocarbon products. As such, we do not have any financing element associated with our contracts. We do not have any issues related to returns or refunds, as product specifications are standardized for the industry and are typically measured when transferred to a common carrier or midstream entity, and other contractual mechanisms (e.g., price adjustments) are used when products do not meet those specifications.

In limited cases, we may also collect advance payments from customers as stipulated in our agreements; payments in excess of recognized revenue are recorded as contract liabilities on our consolidated balance sheets.

Under our hydrocarbon sales agreements, the entire consideration amount is variable either due to pricing and/or volumes. We recognize revenues in the amount of variable consideration allocated to distinct units of hydrocarbons transferred to a customer. Such allocation reflects the amount of total consideration we expect to collect for completed deliveries of hydrocarbons, and the terms of variable payment relate specifically to our efforts to satisfy the performance obligations under these contracts. Our performance obligations under our hydrocarbon sales agreements are to deliver either the entire production from the dedicated wells or specified contractual volumes of hydrocarbons.

We often serve as the operator for jointly owned oil and gas properties. As part of this role, we perform activities to explore, develop and produce oil and gas properties in accordance with the applicable joint operating arrangement and collective decisions of the joint parties. Other working interest owners reimburse us for costs incurred based on our agreements. We determined that these activities are not performed as part of customer relationships, and such reimbursements are recorded as cost reimbursements.

We commonly market the share of production belonging to other working interest owners as the operator of jointly owned oil and gas properties. Those marketing activities are carried out as part of the collaborative arrangement, and we do not purchase or otherwise obtain control of other working interest owners’ share of production. Therefore, we act as a principal only with respect to the sale of our share of production and recognize revenue for the volumes associated with our net production.

We frequently sell a portion of the working interest in each well we drill, or participate in, to third-party investors and retain a portion of the prospect for our own account. We typically guarantee a cost to drill to the third-party drilling participants and record a loss or gain on the difference between the guaranteed price and the actual cost to drill the well. When monies are received from third parties for future drilling obligations, we record the liability as Turnkey Drilling Obligations. Once the contracted depth for the drilling of the well is reached and a determination as to the commercial viability of the well (typically call “Casing Point Election” or “Logging Point”), the difference in the actual cost to drill and the guaranteed cost is recorded as income or expense depending on whether there was a gain or loss.

### Crude oil and condensate

For the crude sales agreements, we satisfy our performance obligations and recognize revenue once customers take control of the crude at the designated delivery points, which include pipelines, trucks, or vessels.

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### Natural gas and NGLs

When selling natural gas and NGLs, we engage midstream entities to process our production stream by separating natural gas from the NGLs. Frequently, these midstream entities also purchase our natural gas and NGLs under the same agreements. In these situations, we determined the performance obligation is complete and satisfied at the tailgate of the processing plant when the natural gas and NGLs become identifiable and measurable products. We determined the plant tailgate is the point in time where control is transferred to midstream entities and they are entitled to significant risks and rewards of ownership of the natural gas and NGLs.

The amounts due to midstream entities for gathering and processing services are recognized as shipping and handling cost and included as lease operating expense in our consolidated statement of operations, since we make those payments in exchange for distinct services except for natural gas sold to Pacific Gas & Electric where transportation is netted directly against revenue. Under some of our natural gas processing agreements, we have an option to take the processed natural gas and NGLs in-kind and sell to customers other than the processing company. In those circumstances, our performance obligations are complete after delivering the processed hydrocarbons to the customer at the designated delivery points, which may be the tailgate of the processing plant, or an alternative delivery point requested by the customer.

### Turnkey Drilling

We sponsor turnkey drilling arrangements in proved and unproved properties. The contracts require that participants pay us the full contract price upon execution of the drilling agreement. Each participant earns an undivided interest in the well bore at the completion of the well. A portion of the funds received in advance of the drilling of a well from a working interest participant are held for the expressed purpose of drilling a well (“Drilling Funds”). If something changes, we may designate the Drilling Funds to drill a substitute well. Under certain conditions, a portion of the Drilling Funds may be required to be returned to a participant. Once the well is drilled, the Drilling Funds are used to satisfy the drilling cost.

We manage these Turnkey Agreements for the participants of the well. We segregate the collections of pre-drilling Authorization for Expenditure (“AFE”) amounts and the gains and losses on the Turnkey Agreements are recorded in income or expense at the time of the casing point election in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 932-323-25 and 932-360. We manage the performance obligation for the well participants and only record revenue or expense at the time the performance obligation of the Turnkey Agreement has been satisfied.

### Restricted Cash

Prior to commencement of drilling, we classify Drilling Funds as restricted cash based on guidance codified under ASC 230-10-50-8. In the event that progress payments are made from these funds, they are recorded as Prepaid Expenses and Other Current Assets.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheet that sum to the total of the same amounts shown in the statement of cash flows.

	<b>June 30, 2024</b>	<b>December 31, 2023</b>
Cash and Cash Equivalents	\$ 1,449,068	\$ 2,202,521
Restricted Cash	4,182,800	3,325,000
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 5,631,868</u>	<u>\$ 5,527,521</u>

### Equity Method Investments

Investments in entities over which we have significant influence, but not control, are accounted for using the equity method of accounting. Income from equity method investments represents our proportionate share of net income generated by the equity method investees and is reflected in revenue and other income in our condensed consolidated statements of operations. Equity method investments are included as noncurrent assets on the consolidated balance sheet. Currently, the Company has no equity investments.

Equity method investments are assessed for impairment whenever changes in the facts and circumstances indicate a loss in value may have occurred as called for under ASC 323. When a loss is deemed to have occurred and is other than temporary, the carrying value of the equity method investment is written down to fair value, and the amount of the write-down is included in income.

Other Receivables, net

Other receivables, net, consist of joint interest billing receivables from direct working interest investors and industry partners. We provide for uncollectible accounts receivable using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged directly to bad debt expense when it becomes probable the receivable will not be collected. The allowance account is increased or decreased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account and recoveries of previously charged off accounts are added to the allowance. At June 30, 2024, and December 31, 2023, we maintained an allowance for uncollectible accounts of \$1,945,518 and \$1,837,551, respectively, for receivables from direct working interest investors whose expenses on non-producing wells were unlikely to be collected from revenue.

Fair Value Measurements

According to the Fair Value Measurements and Disclosures Topic of the FASB ASC, assets and liabilities that are measured at fair value on a recurring and nonrecurring basis in periods subsequent to initial recognition, the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements and for recurring fair value measurements using significant unobservable inputs and the effect of the measurements on earnings for the period.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considering counterparty credit risk in our assessment of fair value. Carrying amounts of our financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values as of the balance sheet dates because of their generally short maturities.

The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

Level 2: Directly or indirectly observable inputs as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

At June 30, 2024 and December 31, 2023, we do not have any financial assets measured and recognized at fair value on a recurring basis. We estimate asset retirement obligations (AROs) pursuant to the provisions of ASC 410, "*Asset Retirement and Environmental Obligations*". The estimates of the fair value the ARO's are based on discounted cash flow projections using numerous estimates, assumptions, and judgements regarding such factors as the existence of a legal obligation for an ARO, amounts and timing of settlements, the credit-adjusted risk-free rate to be used and inflation rates.

The initial measurement of AROs at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with oil and gas properties. Given the unobservable nature of the inputs, including plugging costs and reserve lives, the initial measurement of the asset retirement obligation liability is deemed to use Level 3 inputs.

Other receivables will be reflected as Level 3. The fair value of our other receivables is based on credit factors, oil and gas well reserve profiles and commodity prices both current and forecast specific to these financial instruments.

[Table of Contents](#)Fair Values - Non-recurring

We applied the provisions of the fair value measurement standard to our non-recurring, non-financial measurements including oil and natural gas property impairments and other long-lived asset impairments. These items are not measured at fair value on a recurring basis but are subject to fair value adjustments only in certain circumstances.

Dividends on Series B Convertible Preferred Stock

The Series B Convertible Preferred Stock (“Preferred Stock”) has an obligation to pay a 3.5% cumulative dividend, in kind or cash, on a quarterly basis. The Board of Directors authorized the issuance of additional shares of the Preferred Stock, for the settlement of dividends paid in kind and accumulated through December 31, 2023. We accrued \$432,320 and \$415,200 for dividends related to the Preferred Stock for the first half of 2024 and 2023, respectively. Each quarter, we charge retained earnings for the accumulating dividend as the amounts add to the liquidation preference of the Preferred Stock. For further information regarding the Preferred Stock see Note 3, below.

**ACCOUNTING STANDARDS**Recently Adopted

None

**NOTE 2 – OIL AND GAS PROPERTY AND EQUIPMENT AND FIXTURES**

Oil and gas properties, equipment and fixtures consist of the following:

	<b>June 30, 2024</b>	<b>December 31, 2023</b>
	(Unaudited)	
<b>Oil and Gas</b>		
Producing properties, including drilling costs	\$ 5,693,895	\$ 5,763,892
Undeveloped properties	3,610,837	778,839
Lease and well equipment	3,295,028	3,295,028
	<u>12,599,760</u>	<u>9,837,759</u>
Accumulated depletion, depreciation & amortization	(7,638,604)	(7,443,661)
Net capitalized costs Total	<u>4,961,156</u>	<u>2,394,098</u>
<b>Commercial and Other</b>		
Vehicles	40,061	40,061
Furniture and equipment	1,103,362	1,103,362
	<u>1,143,423</u>	<u>1,143,423</u>
Accumulated depreciation	(1,136,608)	(1,135,619)
	<u>6,815</u>	<u>7,804</u>
Net capitalized costs Total	<u>\$ 4,967,971</u>	<u>\$ 2,401,902</u>

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The guidance set forth in the Continued Capitalization of Exploratory Well Costs paragraph of the Extractive Activities Topic of the FASB ASC requires that we evaluate all existing capitalized exploratory well costs and disclose the extent to which any such capitalized costs have become impaired and are expensed or reclassified during a fiscal period.

Depreciation, depletion, and amortization, based on cost less estimated salvage value of the asset, are primarily determined under either the unit-of-production method or the straight-line method, which is based on estimated asset service life taking obsolescence into consideration. Maintenance and repairs are expensed as incurred. Major renewals and improvements are capitalized, and the assets replaced are retired.

The project construction phase commences with the development of the detailed engineering design and ends when the constructed assets are ready for their intended use. Interest costs, to the extent they are incurred to finance expenditures during the construction phase, are included in property, plant and equipment and are depreciated over the service life of the related assets.

We use the “successful efforts” method to account for our exploration and production activities. Under this method, we accumulate our proportionate share of costs on a well-by-well basis with certain exploratory expenditures and exploratory dry holes being expensed as incurred and capitalize expenditures for productive wells. We amortize the costs of productive wells under the unit-of-production method.

We carry, as an asset, exploratory well costs when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where we are making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expense. Other exploratory expenditures, including geophysical costs and annual lease rentals, are expensed as incurred.

Acquisition costs of proved oil and gas properties are amortized using a unit-of-production method, computed on the basis of total proved oil and gas reserves.

Capitalized exploratory drilling and development costs associated with productive depletable extractive properties are amortized using unit-of-production rates based on the amount of proved developed reserves of oil and gas that are estimated to be recoverable from existing facilities using current operating methods. Under the unit-of-production method, oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the lease or field storage tank.

Production costs are expensed as incurred. Production involves lifting the oil and gas to the surface and gathering, treating, field processing and field storage of the oil and gas. The production function normally terminates at the outlet valve on the lease or field production storage tank. Production costs are those incurred to operate and maintain our wells and related equipment and facilities. They become part of the cost of oil and gas produced. These costs, sometimes referred to as lifting costs, include such items as labor costs to operate the wells and related equipment; repair and maintenance costs on the wells and equipment; materials, supplies and energy costs required to operate the wells and related equipment; and administrative expenses related to the production activity. Proved oil and gas properties held and used, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

We estimate the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts and whether carrying amounts should be impaired. We perform the evaluation of carrying amounts at least annually or when economic events or commodity prices indicate that a substantial and measurable change in future cash flows has occurred. Cash flows used in impairment evaluations are developed using updated evaluation assumptions for crude oil and natural gas commodity prices. Annual volumes are based on field production profiles, which are also updated annually.

Impairment analyses are generally based on proved reserves. An asset group would be further assessed if the undiscounted cash flows were less than its' carrying value. Impairments are measured by the amount the carrying value exceeds fair value. During the six months ended June 30, 2024, we incurred an impairment loss of \$63,054. No impairment losses were incurred during the six months ended June 30, 2023.

Significant unproved properties are assessed for impairment individually, and valuation allowances against the capitalized costs are recorded based on the estimated economic chance of success and the length of time that Royale Energy expects to hold the properties. The valuation allowances are reviewed at least annually.

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Upon the sale or retirement of a complete field of a proven property, we eliminate the cost from our books, and the resulting gain or loss is recorded to the Statement of Operations. Upon the sale of an entire interest in an unproved property where the property has been assessed for impairment individually, a gain or loss is recognized in the Statement of Operations. If a partial interest in an unproved property is sold, any funds received are accounted for as a recovery of the cost in the interest retained with any excess funds recognized as a gain. Should our turnkey drilling agreements include unproved property, total drilling costs incurred to satisfy our obligations are recovered by the total funds received under the agreements. Any excess funds are recorded as a Gain on Turnkey Drilling Programs, and any costs not recovered are capitalized and accounted for under the “successful efforts” method.

We sponsor turnkey drilling agreement arrangements in unproved properties as a pooling of assets in a joint undertaking, whereby proceeds from participants are reported as Deferred Drilling Obligations, and then reduced as costs to complete our obligations are incurred with any excess booked against our property account to reduce any basis in our own interest. Gains on Turnkey Drilling Programs represent funds received from turnkey drilling participants in excess of all costs we incur during the drilling programs (e.g., lease acquisition, exploration and development costs), including costs incurred on behalf of participants and costs incurred for our own account; and are recognized only upon making this determination after our obligations have been fulfilled.

The contracts require the participants to pay the full contract price upon execution of the agreement. We complete the drilling activities typically between 10 and 30 days after drilling begins. The participant retains an undivided or proportional beneficial interest in the property and is also responsible for their proportionate share of operating costs. We retain legal title to the lease. The participants purchase a working interest directly in the well bore.

In these working interest arrangements, the participants are responsible for sharing in the risk of development, but also sharing in a proportional interest in rights to revenues and proportional liability for the cost of operations after drilling is completed and the interest is conveyed to the participant.

A certain portion of the turnkey drilling participant’s funds received are non-refundable. We record all funds invested as Deferred Drilling Obligations until drilling is complete. Occasionally, drilling is delayed for various reasons such as weather, permitting, drilling rig availability and/or contractual obligations. At June 30, 2024, and December 31, 2023, we had Deferred Drilling Obligations of \$9,465,832 and \$9,761,927, respectively.

If we are unable to drill the wells, and a suitable replacement well is not found, we would retain the non-refundable portion of the contract and return the remaining funds to the participant. Included in Restricted Cash are amounts for use in completion of turnkey drilling in progress.

Losses on properties sold are recognized when incurred or when the properties are held for sale and the fair value of the properties is less than the carrying value.

### **NOTE 3 – SERIES B PREFERRED STOCK**

The Preferred Stock is convertible at the option of the security holder at the rate of ten shares of common stock for one share of Preferred Stock. The Preferred Stock has never been registered under the Securities Exchange Act of 1934, as amended, (“Exchange Act”), and no market exists for the Preferred Stock. Additionally, the Preferred Stock will automatically convert into shares of common stock at any time in which the Volume Weighted Average Price (“VWAP”) of our common stock exceeds \$3.50 per share for 20 consecutive trading days, the shares of our common stock are registered under the Exchange Act, and the trading volume of shares of our common stock exceed 200,000 shares per day. Beginning in 2020, the holders of the Preferred Stock became entitled to vote the number of shares of our common stock into which the shares of Preferred Stock would be entitled to convert.

In accordance with ASC 480-10-S99-1.02, we have determined that the conversion or redemption of the Preferred Stock are outside the sole control of the Company and that they should be classified in mezzanine or temporary equity as redeemable noncontrolling interest beginning at the reporting period ended June 30, 2020.

For 2023, the board authorized the payment of each quarterly dividend on shares of Preferred Stock as additional shares of Preferred Stock to be Paid-In-Kind and to be paid immediately following the end of the quarter. For the quarter ending June 30, 2024, we accrued a value of \$217,099. During 2023 and 2022 no cash was used to pay dividends on shares of the Preferred Stock.

**NOTE 4 – INCOME (LOSS) PER SHARE**

Basic and diluted loss per share are calculated as follows:

	<b>Three Months Ended June 30,</b>			
	<b>2024</b>		<b>2023</b>	
	<b>Basic</b>	<b>Diluted</b>	<b>Basic</b>	<b>Diluted</b>
Net Income (Loss)	\$ (110,616)	(110,616)	\$ (1,035,375)	\$ (1,035,375)
Less: Preferred Stock Dividend	217,099	217,099	209,644	209,644
Net Income (Loss) Attributable to Common Shareholders	(327,715)	(327,715)	(1,245,019)	(1,245,019)
Weighted average common shares outstanding	71,863,529	71,863,529	65,322,646	65,322,646
Effect of dilutive securities	-	-	-	-
Weighted average common shares, including Dilutive effect	71,863,529	71,863,529	65,322,646	65,322,646
Per share:				
Net (Loss)	\$ (0.00)	\$ (0.00)	\$ (0.02)	\$ (0.02)

	<b>Six Months Ended June 30,</b>			
	<b>2024</b>		<b>2023</b>	
	<b>Basic</b>	<b>Diluted</b>	<b>Basic</b>	<b>Diluted</b>
Net Income (Loss)	\$ (880,726)	(880,726)	\$ (33,031)	\$ (33,031)
Less: Preferred Stock Dividend	432,320	432,320	415,200	415,200
Net Income (Loss) Attributable to Common Shareholders	(1,313,046)	(1,313,046)	(448,231)	(448,231)
Weighted average common shares outstanding	71,606,757	71,606,757	63,609,320	63,609,320
Effect of dilutive securities	-	-	-	-
Weighted average common shares, including Dilutive effect	71,606,757	71,606,757	63,609,320	63,609,320
Per share:				
Net (Loss)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.01)

For the six and three months ended June 30, 2024 and 2023, we had dilutive securities of 24,664,550 and 24,025,410, respectively. During the six and three month periods in 2024 and 2023, these securities were not included in the dilutive loss per share, due to their antidilutive nature.

**NOTE 5 – INCOME TAXES**

Deferred tax assets and liabilities reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Prior to 2022, management reviewed the reliability of our net deferred tax assets, and due to our continued cumulative losses in recent years, we concluded it is not “more-likely-than-not” our deferred tax assets will be realized. As a result, we will continue to record a full valuation allowance against the deferred tax assets in 2024.

	<b>For the six months ended</b>	
	<b>June 30, 2024</b>	<b>June 30, 2023</b>
Tax benefit computed at statutory rate of 21% at June 30, 2024 and 2023, respectively	\$ (184,953)	(6,936)
Increase (decrease) in taxes resulting from:		
Other non-deductible expenses	393	775
Change in valuation allowance	184,560	6,161
Provision (benefit)	\$ -	\$ -

**NOTE 6 – ISSUANCE OF COMMON STOCK**

In April 2023, CIC RMX LP (“CIC”) exercised in full its warrant to purchase shares of our common stock. CIC elected to make a cashless exercise of the warrant and as a result we issued 3,266,055 shares of our common stock to CIC. During the six months ended June 30, 2024, in lieu of cash payments for board fees, we issued 1,299,641 shares of common stock valued at approximately \$36,000 to board members. During the six months ended June 30, 2023, in lieu of cash payments for board fees, we issued 2,541,176 shares of common stock valued at approximately \$108,001 to board members.

**NOTE 7 – ALLOWANCE FOR CREDIT LOSSES**

We measure our allowance for losses on other receivables including, under ASC 326. The following table summarizes the activity in the balance of allowance for credit losses on other receivables for the period indicated:

Balance at December 31, 2022	\$	2,757,549
Provision for credit loss		0
Write-offs charged against the allowance		8,923
Balance at June 30, 2023	\$	<u>2,748,626</u>
Balance at December 31, 2023	\$	1,837,551
Provision for credit loss		176,044
Write-offs charged against the allowance		68,077
Balance at June 30, 2024	\$	<u>1,945,518</u>

**NOTE 8 – NOTE PAYABLE TO RELATED PARTIES**

On February 7, 2024, the Company’s board of directors approved a debt facility of up to \$3 million. On February 9, 2024, Royale Energy, Inc. entered into a Secured Term Loan Note with Walou Investments, LP, a Texas limited partnership, which is under the direct and indirect control of Johnny Jordan, the Company’s Chief Executive Officer and a member of the Company’s board of directors. In addition, Mr. Jordan is the beneficial owner of approximately 14.8% of the Company’s issued and outstanding common stock. The initial loan to the Company was \$1,400,000 which was received on February 9, 2024. The outstanding principal balance of the loan has an interest rate of 18.0%. The Company began making monthly interest payments on March 1, 2024, and will continue until the maturity date, August 1, 2025, when the unpaid principal balance becomes due. The loan is secured by a deed of trust, which was recorded in Ector County, Texas and covers, among other things, certain oil and gas assets in Ector County, Texas. As of June 30, 2024, there was \$1.4 million outstanding under the loan with Walou Investments, LP.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### FORWARD-LOOKING STATEMENTS

In addition to historical information contained herein, certain information contained in this Quarterly Report on Form 10-Q, as well as other written and oral statements made or incorporated by reference from time to time by the Company and its representatives in other reports, filings with the SEC, press releases, conferences or otherwise, may be deemed to be "forward-looking statements" within the meaning of Section 21E of the Exchange Act. This information includes, without limitation, statements concerning the Company's future financial position and results of operations, planned capital expenditures, sources and availability of financing, business strategy and other plans for future operations, the future mix of revenues and business, customer retention, project reversals, commitments and contingent liabilities, future demand, and industry conditions. While we believe our forward-looking statements are based upon reasonable assumptions, we can give no assurance that such expectations will prove to have been correct. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Generally, the words "anticipate," "believe," "estimate," "expect," "may" and similar expressions, identify forward-looking statements, which generally are not historical in nature. Actual results could differ materially from the results described in the forward-looking statements due to the risks and uncertainties set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations," elsewhere in this Quarterly Report on Form 10-Q, in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, and those described from time to time in our future reports filed with the SEC.

The following discussion is qualified in its entirety by, and should be read in conjunction with, the Company's financial statements, including the notes thereto, included in this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

### OVERVIEW

Royale is an independent oil and natural gas producer. Royale's principal lines of business are the production and sale of oil and natural gas, acquisition of oil and gas lease interests and proved reserves, drilling of both exploratory and development wells, and sales of fractional working interests in wells to be drilled by Royale. Since 1993, Royale has primarily acquired and developed producing and non-producing natural gas properties in California. In December 2018, Royale became the operator of a newly acquired oil and gas property in Texas. The most significant factors affecting our results of operations are (i) changes in oil and natural gas prices, production levels and reserves, (ii) turnkey drilling activities, and (iii) the increase in future cost associated with abandonment of wells.

### RESULTS OF OPERATIONS

For the six months ended June 30, 2024, and 2023, we had a net loss of \$880,726 and \$33,031, respectively. The difference was primarily due to the gain on turnkey drilling recognized during the six months ended June 30, 2023, where we recognized a gain of \$1,339,338 upon the completion of one oil well in Texas and participating in the drilling and completion of an oil well in the Texas Permian basin. During the three months ended June 30, 2024 and 2023, we had net losses of \$110,616 and \$1,035,375, respectively. The difference was due to a gain of \$527,715 on turnkey drilling recognized during the second quarter of 2024 where we participated in the drilling of two Texas wells in the Permian basin.

During the first six months of 2024, revenues from oil and gas production increased \$200,667 or 20.4%, to \$1,189,411 during the period in 2024 from revenues of \$988,744 during the first six months of 2023. This increase was mainly due to higher oil production volumes and higher oil commodity prices. The net sales volume of oil and condensate for the six months ended June 30, 2024, was approximately 14,280 barrels with an average price of \$75.18 per barrel, versus 9,864 barrels with an average price of \$71.69 per barrel for the six months of 2023. This represents an increase in net sales volume of 4,416 barrels or 44.8%, which was due to wells completed and put online during the latter half of 2023 and first half of 2024. The net sales volume of natural gas for the six months ended June 30, 2024, was approximately 61,073 Mcf with an average price of \$1.87 per Mcf, versus 68,081 Mcf with an average price of \$4.10 per Mcf for the same period in 2023. This represents a decrease in net sales volume of 7,008 Mcf or 10.3%. The decrease in natural gas production volume was also due to the natural declines on our wells. For the quarter ended June 30, 2024, revenues from oil and gas production increased \$115,453 or 26.8% to \$545,746 from the 2023 second quarter revenues of \$430,293. This increase was also due to higher oil production volumes and oil commodity prices. The net sales volume of oil and condensate for the quarter ended June 30, 2024, was approximately 6,476 barrels with an average price of \$79.41 per barrel, versus 5,104 barrels with an average price of \$70.45 per barrel for the second quarter of 2023. This represents an increase in net sales volume of 1,372 barrels or 26.9% for the quarter in 2024. The net sales volume of natural gas for the quarter ended June 30, 2024, was approximately 28,414 Mcf with an average price of \$1.07 per Mcf, versus 37,962 Mcf with an average price of \$1.84 per Mcf for the second quarter of 2023. This represents an increase in net sales volume of 9,548 Mcf or 25.2% for the quarter in 2023.

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Oil and natural gas lease operating expenses decreased by \$234,677 or 23.1%, to \$780,125 for the six months ended June 30, 2024, from \$1,014,802 for the same period in 2023. For the second quarter in 2024, lease operating expenses decreased \$91,634 or 20.9% from the same quarter in 2023. Both of these decreases were partially due to the receipt of water disposal recovery fees of \$101,190 received during the six-month period in 2024 versus \$87,293 received during the 2023 period, which began in April 2023 as we converted an existing non-producing oil well into a water injection well to reduce water disposal hauling costs paid to outside vendors, which also decreased our trucking costs. These decreases were also due lower equipment repairs on our Jameson field during the period in 2024 as we attempted to increase production during the period in 2023.

The aggregate of supervisory fees and other income was \$30,258 for the six months ended June 30, 2024, a decrease of \$81,708 from \$111,966 during the same period in 2023. During the second quarter 2024, supervisory fees and other income increased \$2,690 when compared to the quarter in 2023. These increases were mainly due to higher interest income on our bank balances.

Depreciation, depletion and amortization expense increased to \$197,179 from \$173,907, an increase of \$23,272 or 13.4% for the six months ended June 30, 2024, as compared to the same period in 2023. During the second quarter 2024, depreciation, depletion and amortization expenses decreased \$4,322 or 3.8%. The depletion rate is calculated using production as a percentage of reserves. This increase in depletion expense was due to a decrease in expected recoverable reserves which increased the depletion rate.

At June 30, 2024, Royale Energy had a Deferred Drilling Obligation of \$9,465,832. During the first six months of 2024, we removed \$3,371,095 of drilling obligations as we participated in the drilling and completion of two oil wells in the Texas Permian basin, while incurring expenses of \$2,843,380, resulting in a gain of \$527,715. At June 30, 2023, Royale Energy had a Deferred Drilling Obligation of \$8,190,855. During the first six months of 2023, we removed \$2,561,610 of drilling obligations as we completed one oil well in our Texas Jameson field and participated in the drilling and completion of an oil well in the Texas Permian basin, while incurring expenses of \$1,222,228, resulting in a gain of \$1,339,382.

General and administrative expenses decreased by \$50,138 or 5.7% from \$878,169 for the six months ended June 30, 2023 to \$828,031 for the same period in 2024. For the second quarter 2024, general and administrative expenses decreased \$40,981 or 9.7% when compared to the same period in 2023. These decreases were mainly due to lower employee related expenses due to cost reduction measures during the periods in 2024. For the first six months of 2024, marketing expenses decreased \$5,118 or 3.5% to \$141,773, compared to \$146,891 for the first six months of 2023. For the second quarter 2024, marketing expenses increased \$23,709 or 40.8% when compared to the second quarter in 2023. Marketing expense varies from period to period according to the number of marketing events attended by personnel and their associated costs.

Legal and accounting expense increased to \$342,164 for the six-month period in 2024, compared to \$273,143 for the same period in 2023, a \$69,021 or 25.3%. This increase during the period in 2024 was primarily due to higher legal fees related to our debt facility entered into during the first quarter of 2024. For the second quarter 2024, legal and accounting expenses decreased \$182,626 or 74.5%, when compared to the second quarter in 2023, primarily due to the delay in our 2022 audit and its related fees, which occurred during the second quarter 2023.

During the six months ended June 30, 2024, we recorded Bad Debts expense of \$176,044 which arose from identified uncollectable receivables relating to our oil and natural gas properties either plugged and abandoned or scheduled for plugging and abandonment (“P&A”) and our period end oil and natural gas reserve values. We periodically review our accounts receivable from working interest owners to determine whether collection of any of these charges appears doubtful. During the period in 2024, we also recorded lease impairments of \$63,054 on various lease and land costs in our California natural gas fields where the carrying value exceeded the fair value, no lease impairments were recorded in the first six months of 2023. During the six months ended June 30, 2023, we recorded a Gain on Other of \$54,975 as we reconciled employee related items previously recorded as liabilities. We also recorded a gain on other of approximately \$57,000 on our share of prior years property tax refunds received by RMX Resources, LLC during the period in 2023. During the period in 2023, we recorded a write down of \$9,840 on certain well equipment that was either written down to its current market value or written off as it was no longer usable.

Interest expense for the six months ended June 30, 2024, and 2023, were \$99,740 and \$1,056, respectively. The higher 2024 interest expense was due to the \$1.4 million note payable obtained in February 2024, discussed in Note 8.

## **CAPITAL RESOURCES AND LIQUIDITY**

At June 30, 2024, we had current assets totaling \$7,989,300 and current liabilities totaling \$17,404,389, a \$9,415,089 working capital deficit. We had \$1,449,068 in cash and \$4,182,800 in restricted cash at June 30, 2024, compared to \$2,202,521 in cash and \$3,325,000 in restricted cash at December 31, 2023.

At June 30, 2024, our other receivables, which consist of joint interest billing receivables from direct working interest investors and industry partners, totaled \$698,006 compared to \$1,036,401 at December 31, 2023, a \$338,395 or 32.6% decrease. This decrease was mainly due to lower accounts receivables from direct working interest owners for lease operating expenses from our Texas Jameson wells netted revenues. At June 30, 2024, revenue receivable was \$394,383 a decrease of \$483,995, compared to \$878,378 at December 31, 2023, due to lower production volumes during the second quarter in 2024 when compared to the yearend 2023. At June 30, 2024, our accounts payable and accrued expenses totaled \$6,116,199 an increase of \$634,125 from the accounts payable at December 31, 2023 of \$5,482,074, which was mainly due to higher trade payables due mainly to drilling costs during the first half of 2024.

We have had recurring operating and net losses and cash used in operations and the financial statements reflect a working capital deficiency of \$9,415,089 and an accumulated deficit of \$91,636,335. These factors raise substantial doubt about our ability to continue as a going concern. We anticipate that our primary sources of liquidity will be from the sale of oil and gas in the course of normal operations, the sale of oil and gas property, sales of participation interest and possible issuance of debt and/or equity. If we are unable to generate sufficient cash from operations or financing sources, it may become necessary to curtail, suspend or cease operations, sell property, or enter into financing transaction(s) on less favorable terms; any such outcomes could have a material adverse effect on our business, results of operations, financial position, and liquidity. Management has plans to continue to increase revenues by making commitments to participate with industry partners in drilling wells in the Permian basin and will also continue to drill and workover wells in our Texas Jameson field. Although there are no assurances, Management believes that expected increases in revenue together with reduced capital expenditures for drilling will allow the company to meet its liquidity needs through the remainder of the year.

*Operating Activities.* Net cash used in operating activities totaled \$728,190 and \$1,658,304 for the six months ended June 30, 2024 and 2023, respectively. This difference in cash was mainly due to an increase in accounts payable and accrued expenses during the period in 2024 mainly due to drilling and lease costs when compared to a decrease in accounts payables during the period in 2023.

*Investing Activities.* Net cash used in investing activities totaled \$561,191 and \$24,774 for the six months ended June 30, 2024 and 2023, respectively. During the six-month period in 2024, we received approximately \$3.1 million in drilling funds while our drilling and lease expenditures were approximately \$3.6 million as we participated in the drilling and completion of two oil wells in the Texas Permian basin and obtained lease interests in the Permian basin. During the six-month period in 2023, we received approximately \$2.62 million in drilling funds while our drilling expenditures were approximately \$2.65 million as we drilled and completed one Texas oil well and participated in the drilling and completion of a Texas Permian basin oil well.

*Financing Activities.* Net cash provided by financing activities totaled \$1,393,728 for the six months ended June 30, 2024. Net cash used in financing activities totaled \$5,895 for the six months ended June 30, 2023. The difference in cash was due to receipt of \$1.4 million from the note payable discussed in Note 8. During the six-month periods in 2024 and 2023, \$6,272 and \$5,895, respectively, were used for principal payments on our financing lease payments.

### **Critical Accounting Estimates**

Our critical accounting policies are further disclosed in Note 1 to the consolidated financial statements included in our 2023 Annual Report on Form 10-K.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

### **Item 4. Controls and Procedures**

#### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are controls and other procedures of a registrant designed to ensure that information required to be disclosed by the registrant in the reports that it files or submits under the Exchange Act is properly recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms. Disclosure controls and procedures include processes to accumulate and evaluate relevant information and communicate such information to a registrant's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

As of December 31, 2023, our management, including our Chief Executive and Chief Financial Officers evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as required by Rule 13a-15 of the Exchange Act. Based on the evaluation described above, the company concluded that there was a material weakness in our disclosure controls and procedures. These controls and procedures are based on the definition of disclosure controls and procedures in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

As a result of the review by the CFO and CEO, the material weakness was identified as listed below.

- In connection with the audit of our 2023 consolidated financial statements, management has identified a material weakness that exists because we did not maintain effective controls over our financial close and reporting process, and has concluded that the financial close and reporting process needs additional formal procedures to ensure that appropriate reviews occur on all financial reporting analysis. Management has designed and implemented updated control procedures that we believe will mitigate this material weakness and is monitoring these procedures for effectiveness.

Because of the material weaknesses described above, our management was unable to conclude that our internal control over financial reporting was effective as of the end of period to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Notwithstanding the material weaknesses described above, our management, including our Chief Executive Officer and Chief Financial Officer, believes that the consolidated financial statements contained in this Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the fiscal periods presented in conformity with U.S. generally accepted accounting principles. In addition, the material weakness described did not result in the restatements of any of our audited or unaudited consolidated financial statements or disclosures for any previously reported periods.

#### **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

Except for the actions described above, that were taken to address the material weaknesses, there were no changes in our internal controls during the period ended June 30, 2024, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, the Company may be involved in various legal proceedings or may be subject to claims that arise in the ordinary course of business. The outcome of any such claims or proceedings cannot be predicted with certainty. As of the date of this filing, management is not aware of any such claims against the Company.

### Item 1A. Risk Factors

Not applicable to smaller reporting companies.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the period covered by this report, we have not issued any unregistered shares.

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Mine Safety Disclosures

Not applicable

### Item 5. Other Information

None

### Item 6. Exhibits

10.1	<a href="#">Secured Term Loan dated as of February 9, 2024 among Royale Energy, Inc., as borrower, Walou Investments, LP as administrative agent for the lenders, and Walou Investments, LP, as lender. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 15, 2024.</a>
10.2	<a href="#">Deed of Trust, Mortgage, Security Agreement, Fixture Filing, Financing Statement and Assignment of Production dated as of February 15, 2024, executed by Royale Energy Funds, Inc., as mortgagor, to Johnny Jordan, as Trustee, for the benefit of Agent, as mortgagee. Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 15, 2024.</a>
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification</a>
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification</a>
32.1	<a href="#">18 U.S.C. § 1350 Certification</a>
32.2	<a href="#">18 U.S.C. § 1350 Certification</a>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

**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.

**ROYALE ENERGY, INC.**

Date: August 14, 2024

/s/ Johnny Jordan

Johnny Jordan, Chief Executive Officer

Date: August 14, 2024

/s/ Ronald Lipnick

Ronald Lipnick, Chief Financial Officer

**Exhibit 31.1**

I, Johnny Jordan, certify that:

1. I have reviewed this report on Form 10-Q of Royale Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2024

*/s/ Johnny Jordan*

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Johnny Jordan, Chief Executive Officer

**Exhibit 31.2**

I, Ronald Lipnick, certify that:

1. I have reviewed this report on Form 10-Q of Royale Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions)
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2024

/s/ Ronald Lipnick

Ronald Lipnick, Chief Financial Officer



**Exhibit 32.1**

**Certification Pursuant to 18 U.S.C. § 1350**

The undersigned, Johnny Jordan, Chief Executive Officer of Royale Energy, Inc., a Delaware corporation (the “Company”), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, hereby certifies that, to his knowledge:

(1) the Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2024 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2024

By: /s/ Johnny Jordan  
Johnny Jordan, Chief Executive Officer

**Exhibit 32.2**

**Certification Pursuant to 18 U.S.C. § 1350**

The undersigned, Ronald Lipnick, Chief Financial Officer of Royale Energy, Inc., a Delaware corporation (the “Company”), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, hereby certifies that, to his knowledge:

(1) the Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2024 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2024

By: /s/ Ronald Lipnick  
Ronald Lipnick, Chief Financial Officer