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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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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 **June 30, 2015**

Commission File No. **000-22750**

**ROYALE ENERGY, INC.**

(Exact name of registrant as specified in its charter)

**California**  
(State or other jurisdiction of  
incorporation or organization)

**33-0224120**  
(I.R.S. Employer  
Identification No.)

**3777 Willow Glen Drive**  
**El Cajon, CA 92019**  
(Address of principal executive offices) (Zip Code)

**619-383-6600**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Check one:

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

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

At June 30, 2015, a total of 15,034,401 shares of registrant's common stock were outstanding.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ROYALE ENERGY, INC.  
BALANCE SHEETS**

	<b>June 30, 2015 (Unaudited)</b>	<b>December 31, 2014 (Audited)</b>
<b><u>ASSETS</u></b>		
Current Assets		
Cash and Cash Equivalents	\$ 1,732,820	\$ 3,061,841
Other Receivables	1,986,227	1,760,181
Revenue Receivables	252,839	493,295
Prepaid Expenses	251,988	158,404
Total Current Assets	<u>4,223,874</u>	<u>5,473,721</u>
Other Assets	580,844	510,821
Oil and Gas Properties, at cost, (successful efforts basis), Equipment and Fixtures	<u>7,026,933</u>	<u>7,594,666</u>
Total Assets	<u>\$ 11,831,651</u>	<u>\$ 13,579,208</u>

See notes to unaudited financial statements.

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

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b><u>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</u></b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 3,433,401	\$ 4,502,559
Current Portion of Long-Term Debt, Net	29,651	29,031
Deferred Turnkey Drilling Obligation	9,146,033	7,937,786
Total Current Liabilities	<u>12,609,085</u>	<u>12,469,376</u>
Noncurrent Liabilities:		
Asset Retirement Obligation	835,207	804,206
Note Payable	1,431,811	1,446,853
Total Noncurrent Liabilities	<u>2,267,018</u>	<u>2,251,059</u>
Total Liabilities	<u>14,876,103</u>	<u>14,720,435</u>
Stockholders' (Deficit):		
Common Stock, no par value, authorized 20,000,000 shares, 15,034,401 and 14,945,789 shares issued and outstanding.	38,152,484	38,014,730
Convertible preferred stock, Series AA, no par value, 147,500 shares authorized; 46,662 and 46,662 shares issued and outstanding	136,149	136,149
Accumulated (Deficit)	(41,682,808)	(39,623,243)
Additional Paid in Capital	356,226	337,640
Accumulated Other Comprehensive (Loss)	(6,503)	(6,503)
Total Stockholders' (Deficit)	<u>(3,044,452)</u>	<u>(1,141,227)</u>
Total Liabilities and Stockholders' (Deficit)	<u>\$ 11,831,651</u>	<u>\$ 13,579,208</u>

See notes to unaudited financial statements.

**ROYALE ENERGY, INC.**  
**STATEMENTS OF OPERATIONS**  
**FOR THE PERIODS ENDED JUNE 30, 2015 AND 2014**

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues:				
Sale of Oil and Gas	\$ 281,984	\$ 744,410	\$ 576,293	\$ 1,569,966
Supervisory Fees and Other	166,706	174,429	342,466	327,904
Total Revenues	<u>448,690</u>	<u>918,839</u>	<u>918,759</u>	<u>1,897,870</u>
Costs and Expenses:				
General and Administrative	858,251	587,070	1,687,195	1,422,131
Lease Operating	269,804	267,826	584,596	721,362
Delay Rentals	20,437	12,298	49,565	31,792
Lease Impairment	-	-	12,681	-
Well Equipment Write Down	-	-	19,000	-
Legal and Accounting	99,422	49,751	323,898	268,403
Marketing	68,759	35,122	145,747	130,318
Depreciation, Depletion and Amortization	64,429	88,309	139,220	178,135
Total Costs and Expenses	<u>1,381,102</u>	<u>1,040,376</u>	<u>2,961,902</u>	<u>2,752,141</u>
Gain on Turnkey Drilling Programs	16,237	415,487	16,237	396,454
Gain (Loss) on Sale of assets	10,070	(34,601)	10,070	(34,601)
Income (Loss) From Operations	(906,105)	259,349	(2,016,836)	(492,418)
Other Income (Expense):				
Interest Expense	(21,544)	(21,955)	(42,729)	(37,293)
Income (Loss) Before Income Tax Expense	<u>(927,649)</u>	<u>237,394</u>	<u>(2,059,565)</u>	<u>(529,711)</u>
Net Income (Loss)	<u>\$ (927,649)</u>	<u>\$ 237,394</u>	<u>\$ (2,059,565)</u>	<u>\$ (529,711)</u>
Basic Earnings (Loss) Per Share	<u>\$ (0.06)</u>	<u>\$ 0.02</u>	<u>\$ (0.14)</u>	<u>\$ (0.04)</u>
Diluted Earnings (Loss) Per Share	<u>\$ (0.06)</u>	<u>\$ 0.02</u>	<u>\$ (0.14)</u>	<u>\$ (0.04)</u>

See notes to unaudited financial statements.

**ROYALE ENERGY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014**

	<b>Six Months Ended June 30,</b>	
	<b>2015</b> <b>(Unaudited)</b>	<b>2014</b> <b>(Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Loss)	\$ (2,059,565)	\$ (529,711)
Adjustments to Reconcile Net Income (Loss) to Net Cash (Used) by Operating Activities:		
Depreciation, Depletion and Amortization	139,220	178,135
Lease Impairment	12,681	-
(Gain) Loss on Sale of Assets	(10,070)	34,601
(Gain) on Turnkey Drilling Programs	(16,237)	(396,454)
Well Equipment Write Down	19,000	-
Stock-Based Compensation, net of adjustments	62,745	-
(Increase) Decrease in:		
Other & Revenue Receivables	14,410	(840,416)
Prepaid Expenses and Other Assets	(182,607)	101,399
Increase (Decrease) in:		
Accounts Payable and Accrued expenses	(1,038,157)	265,992
Deferred Drilling Obligations	1,208,247	(518,982)
Net Cash (Used) in Operating Activities	<u>(1,850,333)</u>	<u>(1,705,436)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for Oil and Gas Properties and Other Capital Expenditures	(1,229,152)	(2,495,777)
Proceeds from Turnkey Drilling Programs	1,164,754	2,300,831
Proceeds from Sale of Assets	506,537	-
Net Cash Provided (Used) by Investing Activities	<u>442,139</u>	<u>(194,946)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Long-Term Debt	(14,422)	(10,342)
Proceeds from Sale of Common Stock, net of adjustments	93,595	-
Net Cash Provided (Used) by Financing Activities	<u>79,173</u>	<u>(10,342)</u>
Net (Decrease) in Cash and Cash Equivalents	(1,329,021)	(1,910,724)
Cash at Beginning of Year	<u>3,061,841</u>	<u>4,878,233</u>
Cash at End of Period	<u><u>1,732,820</u></u>	<u><u>2,967,509</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:</b>		
Cash Paid for Interest	<u>42,729</u>	<u>37,293</u>
Cash Paid for Taxes	<u>2,900</u>	<u>1,900</u>

See notes to unaudited financial statements.

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

**NOTE 1** – In the opinion of management, the accompanying unaudited financial statements include all adjustments, consisting only of normally recurring adjustments, necessary to present fairly the Company’s financial position and the results of its operations and cash flows for the periods presented. The results of operations for the six month period are not, in management’s opinion, indicative of the results to be expected for a full year of operations. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in the Company’s latest annual report.

Use of Estimates

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America 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 Company 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.

Liquidity

The Company has negative working capital, losses from operations and negative cash flows from operations. The primary sources of liquidity have historically been issuances of common stock and operations. Until we become cash flow positive, we anticipate that our primary sources of liquidity will be from the issuance of debt and/or equity, and the sale of oil and natural gas property participation interests. Assuming there are no changes in expected sales and expense trends subsequent to August 4, 2015, the Company believes that its cash position and traditional methods will be sufficient to continue operations for the foreseeable future.

Oil and Gas Property and Equipment

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, including planned major maintenance, are expensed as incurred. Major renewals and improvements are capitalized and the assets replaced are retired.

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.

Proved oil and gas properties held and used by Royale Energy are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Royale Energy estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts. Cash flows used in impairment evaluations are developed using annually updated evaluation assumptions for crude oil commodity prices. Annual volumes are based on field production profiles, which are also updated annually. Prices for natural gas and other products are based on assumptions developed annually for evaluation purposes.

Impairment analyses are generally based on proved reserves. An asset group would be impaired 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, 2015 and 2014, impairment losses of \$12,681 and \$0, respectively, were recorded on various capitalized lease and land costs that were no longer viable.

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 proved property, Royale Energy eliminates the cost from its books, and the resultant gain or loss is recorded to Royale Energy's 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 Royale Energy's 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 Royale Energy's turnkey drilling agreements include unproved property, total drilling costs incurred to satisfy its 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.

Royale Energy sponsors 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 its obligations are incurred with any excess booked against its property account to reduce any basis in its own interest. Gains on Turnkey Drilling Programs represent funds received from turnkey drilling participants in excess of all costs Royale incurs during the drilling programs (e.g., lease acquisition, exploration and development costs), including costs incurred on behalf of participants and costs incurred for its own account; and are recognized only upon making this determination after Royale's obligations have been fulfilled.

The contracts require the participants pay Royale Energy the full contract price upon execution of the agreement. Royale Energy completes 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 its proportionate share of operating costs. Royale Energy retains 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. The company holds all funds invested as Deferred Drilling Obligations until drilling is complete. Occasionally, drilling is delayed due to the permitting process or drilling rig availability. At June 30, 2015 and December 31, 2014, Royale Energy had Deferred Drilling Obligations of \$9,146,033 and \$7,937,786 respectively.

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and on deposit, and highly liquid debt instruments with original maturities of three months or less.

Other Receivables

Our other receivables consist of 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, 2015 and December 31, 2014, the Company had an allowance for uncollectible accounts of \$1,734,713 and \$1,734,713, respectively, for receivables from direct working interest investors whose expenses on non-producing wells were unlikely to be collected from revenue.

Revenue Receivables

Our revenue receivables consist of receivables related to the sale of our natural gas and oil. Once a production month is completed we receive payment approximately 15 to 30 days later.



### Equipment and Fixtures

Equipment and fixtures are stated at cost and depreciated over the estimated useful lives of the assets, which range from three to seven years, using the straight-line method. Repairs and maintenance are charged to expense as incurred. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income. Maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains or losses on dispositions of property and equipment, other than oil and gas, are reflected in operations.

### Fair Value Measurements

According to Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification, assets and liabilities that are measured at fair value on a recurring and nonrecurring basis in period subsequent to initial recognition, the reporting entity shall disclose information that enable users of its financial statements to assess the inputs used to develop those measurements and for recurring fair value measurements using significant unobservable inputs, 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, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. Carrying amounts of the Company's 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, 2015, Royale Energy reported the fair value of \$0 in available for sale securities. The fair value was determined using the number of shares owned as of June 30, 2015, multiplied by the market price of those securities on June 30, 2015

### Reclassifications

Certain items in the financial statements have been reclassified to maintain consistency and comparability for all periods presented herein.

### Recently Issued Accounting Pronouncements

The Company has reviewed the updates issued by the Financial Accounting Standards Board (FASB) during the six months ended June 30, 2015, and have determined that the updates are not applicable to the Company.

**NOTE 2 – EARNINGS (LOSS) PER SHARE**

Basic and diluted earnings (loss) per share are calculated as follows:

	<b>Three Months Ended June 30,</b>			
	<b>2015</b>		<b>2014</b>	
	<b>Basic</b>	<b>Diluted</b>	<b>Basic</b>	<b>Diluted</b>
Net Income (Loss)	\$ (927,649)	\$ (927,649)	\$ 237,394	\$ 237,394
Weighted average common shares outstanding	14,953,645	14,953,645	14,942,728	14,942,728
Effect of dilutive securities	--	23,331	--	167,477
Weighted average common shares, including Dilutive effect	<u>14,953,645</u>	<u>14,976,976</u>	<u>14,942,728</u>	<u>15,110,205</u>
Per share:				
Net income (Loss)	\$ (0.06)	\$ (0.06)	\$ 0.02	\$ 0.02

	<b>Six Months Ended June 30,</b>			
	<b>2015</b>		<b>2014</b>	
	<b>Basic</b>	<b>Diluted</b>	<b>Basic</b>	<b>Diluted</b>
Net Income (Loss)	\$ (2,059,565)	\$ (2,059,565)	\$ (529,711)	\$ (529,711)
Weighted average common shares outstanding	14,953,645	14,953,645	14,942,728	14,942,728
Effect of dilutive securities	--	23,331	--	157,472
Weighted average common shares, including Dilutive effect	<u>14,953,645</u>	<u>14,976,976</u>	<u>14,942,728</u>	<u>15,100,200</u>
Per share:				
Net Income (Loss)	\$ (0.14)	\$ (0.14)	\$ (0.04)	\$ (0.04)

For the six months ended June 30, 2015 and 2014, Royale Energy had dilutive securities of 23,331 and 157,472, respectively. These securities were not included in the dilutive loss per share due to their antidilutive nature.

**NOTE 3 – OIL AND GAS PROPERTIES, EQUIPMENT AND FIXTURES**

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

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Oil and Gas</b>		
Producing properties, including drilling costs	\$ 5,020,841	\$ 4,920,521
Undeveloped properties	2,823,037	2,773,422
Lease and well equipment	<u>4,321,132</u>	<u>4,410,120</u>
	12,165,010	12,104,063
Accumulated depletion, depreciation & amortization	<u>(7,418,147)</u>	<u>(7,318,510)</u>
	4,746,863	4,785,553
<b>Commercial and Other</b>		
Real estate, including furniture and fixtures	\$ 2,266,050	\$ 2,768,394
Vehicles	118,061	116,830
Furniture and equipment	<u>1,117,984</u>	<u>1,114,086</u>
	3,502,095	3,999,310
Accumulated depreciation	<u>(1,222,025)</u>	<u>(1,190,197)</u>
	<u>2,280,070</u>	<u>2,809,113</u>
	<u>\$ 7,026,933</u>	<u>\$ 7,594,666</u>

The guidance set forth in the Continued Capitalization of Exploratory Well Costs paragraph of the Extractive Activities Topic of the FASB Accounting Standards Codification 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. We did not make any additions to capitalized exploratory well costs pending a determination of proved reserves during the periods in 2015 or 2014.

**NOTE 4 – STOCK COMPENSATION PLAN**

During the October 10, 2014 Board of Directors meeting, directors and executive offices of Royale Energy were granted 20,000 options each, 140,000 total, to purchase common stock at an exercise price of \$5.00 per share. These options were granted for a period of 3 years and will expire after December 31, 2017. These options become exercisable at 5,000 shares per period beginning October 13, 2014, January 1, 2015, April 1, 2015 and July 1 2015. During the six months ended June 30, 2015, Royale recognized compensation costs of \$62,745 relating to this option grant. There were no stock compensation costs recognized during the same quarter in 2014.

**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. At the end of 2014, management reviewed the reliability of the Company's net deferred tax assets, and due to the Company's continued cumulative losses in recent years, Royale and its management concluded it is not "more-likely-than-not" its deferred tax assets will be realized. As a result, the Company will continue to record a full valuation allowance against the deferred tax assets in 2015.

A reconciliation of Royale Energy's provision for income taxes and the amount computed by applying the statutory income tax rates at June 30, 2015 and 2014, respectively, to pretax income is as follows:

	<b>Six Months Ended June 30, 2015</b>	<b>Six Months Ended June 30, 2014</b>
Tax (benefit) computed at statutory rate of 34%	\$ (700,252)	\$ (180,102)
Increase (decrease) in taxes resulting from:		
State tax / percentage depletion / other		
Other non-deductible expenses	306	631
Change in valuation allowance	699,946	179,471
Provision (benefit)	<u>\$ -</u>	<u>\$ -</u>

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

### Forward Looking Statements

In addition to historical information contained herein, this discussion contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, subject to various risks and uncertainties that could cause our actual results to differ materially from those in the "forward-looking" statements. While we believe our forward looking statements are based upon reasonable assumptions, there are factors that are difficult to predict and that are influenced by economic and other conditions beyond our control. Investors are directed to consider such risks and other uncertainties discussed in documents filed by the Company with the Securities and Exchange Commission.

### Results of Operations

For the six months ended June 30, 2015, we had a net loss of \$2,059,565 compared to net loss of \$529,711 during the six months ended June 30, 2014, a \$1,529,854 difference. Total revenues for the six months ended June 30, 2015 were \$918,759, a decrease of \$979,111 or 51.6% from the total revenues of \$1,897,870 during the same period in 2014. The lower net income and revenues in 2015 were primarily due to decreased production levels and the decrease of natural gas & oil commodity prices, when compared to the first six months of 2014.

During the first six months of 2015, revenues from oil and gas production decreased \$993,673 or 63.3% to \$576,293 from the 2014 six month revenues of \$1,569,966. This decrease was due to lower natural gas production and commodity prices. The net sales volume of natural gas for the six months ended June 30, 2015, was approximately 202,477 Mcf with an average price of \$2.80 per Mcf, versus 305,978 Mcf with an average price of \$5.03 per Mcf for the period in 2014. This represents a decrease in net sales volume of 103,501 Mcf or 33.8%. The net sales volume for oil and condensate (natural gas liquids) production was 197 barrels at an average price of \$47.36 per barrel for the first six months of 2015, compared to 332 barrels with an average price of \$93.40 per barrel for the same period in 2014. This represents a decrease in net sales volume of 135 barrels or 40.7%.

For the quarter ended June 30, 2015, revenues from oil and gas production decreased \$462,426 or 62.1% to \$281,984 from the 2014 second quarter revenues of \$744,410. This decrease was also due to lower natural gas commodity prices and decreased production. The net sales volume of natural gas for the quarter ended June 30, 2015, was approximately 94,444 Mcf with an average price of \$2.78 per Mcf, versus 157,655 Mcf with an average price of \$4.69 per Mcf for the second quarter of 2014. This represents a decrease in net sales volume of 63,211 Mcf or 40% for the quarter in 2015. The net sales volume for oil and condensate (natural gas liquids) production was 100 barrels with an average price of \$51.60 per barrel for the second quarter of 2015, compared to 52 barrels at an average price of \$96.66 per barrel for the second quarter of 2014.

Oil and natural gas lease operating expenses decreased by \$136,766 or 19%, to \$584,596 for the six months ended June 30, 2015, from \$721,362 for the same period in 2014. This decrease was mainly due to lower plugging and abandonment expenses during the period in 2015. For the second quarter in 2015, lease operating expenses increased \$1,978 or .7% from the same period in 2014. Delay rental costs increased by \$17,773 or 55.9%, to \$49,565 for the six months ended June 30, 2015 from \$31,792 for the same period in 2014.

The aggregate of supervisory fees and other income was \$342,466 for six months ended June 30, 2015, an increase of \$14,562 or 4.4% from \$327,904 during the period in 2014. This increase was the result of higher overhead rates during the period in 2015. During the second quarter 2015, supervisory fees and other income decreased \$7,723, mainly due to lower drilling overhead during the period in 2015.

Depreciation, depletion and amortization expense decreased to \$139,220 from \$178,135, a decrease of \$38,915 or 21.9% for the six months ended June 30, 2015, as compared to the same period in 2014. During the second quarter 2015, depreciation, depletion and amortization expenses also decreased \$23,880 or 27%. The depletion rate is calculated using production as a percentage of reserves. This decreases in depreciation expense was mainly due to lower production volumes during the period.

General and administrative expenses increased by \$265,064 or 18.6% from \$1,422,131 for the six months ended June 30, 2014, to \$1,687,195, for the period in 2015. For the second quarter 2015, general and administrative expenses increased \$271,181 or 46.2% when compared to the same period in 2014. These increases were primarily due to employee related expenses and stock based compensation costs. Marketing expense for the six months ended June 30, 2015, increased \$15,429, or 11.8%, to \$145,747, compared to \$130,318 for the same period in 2014. For the second quarter 2015, marketing expenses increased \$33,637 or 95.8% when compared to the second quarter in 2014. Marketing expense varies from period to period according to the number of marketing events attended by personnel and their associated costs.

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Legal and accounting expense increased to \$323,898 for the six months ended June 30, 2015, compared to \$268,403 for the same period in 2014, a \$55,495 or 20.7% increase. For the second quarter 2015, legal and accounting expenses increased \$49,671 or 99.8%, when compared to the same period in 2014. These increases were mainly a result of higher legal fees paid during the period in 2015.

We periodically review our proved properties for impairment on a field-by-field basis and charge impairments of value to the expense. During the period ended June 30, 2015, we recorded a Lease Impairment of \$12,681 on various lease and land costs that were no longer viable. Also, during the period in 2015, we recorded a write down of \$19,000 on certain well equipment to its estimated fair value.

At June 30, 2015, Royale Energy had a Deferred Drilling Obligation of \$9,146,033. During the six month period in 2015, we disposed of \$1,164,754 of deferred drilling obligations upon completing the drilling of one well, while incurring expenses of \$1,247,009, resulting in a capitalization of \$82,255 in drilling costs. During the period in 2015, we had a gain of \$16,237, due to an over accrual of drilling costs. In the same period in 2014, we disposed of \$2,300,831 of deferred drilling obligations upon completing three wells, while incurring expenses of \$1,904,377, resulting in a gain of \$396,454. During the third quarter 2015, Royale expects to drill three wells in the period.

During the period in 2015, we recorded a gain of \$10,070 on the sale of a company owned condominium located in San Diego, California. In the second quarter of 2014 we recorded a loss of \$34,601 on previously capitalized office leasehold improvements due to our office relocation.

Interest expense increased to \$42,729 for the six months ended June 30, 2014, from \$37,293 for the same period in 2014, a \$5,436, or 14.6% increase. This increase resulted from interest paid on the outstanding loan for the corporate headquarters.

### **Capital Resources and Liquidity**

At June 30, 2015, Royale Energy had current assets totaling \$4,223,874 and current liabilities totaling \$12,609,085, an \$8,385,211 working capital deficit. We had cash and cash equivalents at June 30, 2015, of \$1,732,820 compared to \$3,061,841 at December 31, 2014.

In December of 2013, Royale purchased an office building valued at \$2,000,000, of which \$500,000 was paid in cash on the date of purchase, and \$1,500,000 was borrowed from AmericanWest Bank, with a note secured by the property being purchased. The note carries an interest rate of 5.75% until paid in full. Royale will pay this loan in 119 regular payments of \$9,525 each and one balloon payment estimated at \$1,150,435. Royale's first payment was due February 1, 2014, and all subsequent payments are due on the same day of each month after that. Royale's final payment will be due on January 1, 2024, and will be for all principal and all accrued interest not yet paid. Payments include principal and interest. At June 30, 2015, the outstanding balance of this note was \$1,461,462.

At June 30, 2015, our other receivables totaled \$1,986,227, compared to \$1,760,181 at December 31, 2014, a \$226,046 or 12.8% increase. This increase was due to receivables due to workovers in the current period in addition to receivables from an industry partner. At June 30, 2015, our revenue receivables totaled \$252,839, compared to \$493,295 at December 31, 2014, a \$240,456 or 48.7% decrease. This was primarily due to lower oil and gas revenue receivables, reflecting lower commodity prices and decreased production during the period. At June 30, 2015, our accounts payable and accrued expenses totaled \$3,433,401, a decrease of \$1,069,158 or 23.8% from the accounts payable at December 31, 2014, of \$4,502,559 mainly due to lower accrued drilling costs at the end of the period. Assuming there are no changes in expected sales and expense trends subsequent to August 4, 2015, the Company believes that its cash position and traditional methods will be sufficient to continue operations for the foreseeable future.

Ordinarily, we fund our operations and cash needs from cash flows generated from operations and issuances of common stock. We do not foresee any liquidity demands that cannot be met from cash flow or financing activities, including ongoing operations as the Company continues to increase its well inventory or additional sales of equity or debt securities pursuant to a Registration Statement on Form S-3 filed with the SEC. Assuming there are no changes in expected sales and expense trends subsequent to August 4, 2015, the Company believes that its cash position and traditional methods will be sufficient to continue operations for the foreseeable future.

*Operating Activities.* Net cash used by operating activities totaled \$1,850,333 and \$1,705,436 for the six month periods ended June 30, 2015 and 2014, respectively. This \$144,897 or 8.5% increase in cash used was mainly due to increased payments on accounts payable and lower accrued drilling costs for the period in 2015.

*Investing Activities.* Net cash provided by investing activities, primarily in capital acquisitions of oil and gas properties, amounted to \$442,139 provided by investing activities and \$194,946 net cash used by investing activities for the six month periods ended June 30, 2015 and 2014, respectively. This difference was primarily due to the proceeds of approximately \$500,000 received from the sale of a condominium located in San Diego, California. During the six month periods in 2015 and 2014, the Company drilled one well and three wells, respectively.

*Financing Activities.* Net cash provided by financing activities totaled \$79,173 in the second quarter of 2015, which was due to the sale of common stock and principal payments on the Company's long-term debt; while \$10,342 was used by financing activities for the six month period ended June 30, 2014. During the six months ended June 30, 2015, Royale issued 88,612 shares of its common stock and received net proceeds of \$137,754, which were offset by costs of approximately \$44,159 relating to its market equity offering program. These proceeds were added to working capital and used for ordinary operating expenses.

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

Our major market risk exposure relates to pricing of oil and gas production. The prices we receive for oil and gas are closely related to worldwide market prices for crude oil and local spot prices paid for natural gas production. Prices have been volatile for the last several years, and we expect that volatility to continue. Monthly average natural gas prices ranged from a low of \$2.86 per Mcf to a high of \$3.25 per Mcf for the first six months of 2015. We have not entered into any hedging or derivative agreements to limit our exposure to changes in oil and gas prices or interest rates.

**Item 4. Controls and Procedures**

As of June 30, 2015, an evaluation was performed under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of 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. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of June 30, 2015.

No changes occurred in our internal control over financial reporting during the six months ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

**Royale Energy, Inc. vs. Rampart Alaska LLC, Superior Court, Nome, Alaska.** On November 14, 2014, Royale Energy, Inc. caused a complaint for lien foreclosure to be filed in the Superior Court for the State of Alaska, Second Judicial District at Nome. Royale Energy caused certain liens to be filed against the working interests of Rampart Alaska LLC involving oil leases on the North Slope Alaska. The filing of the liens came about as the result of Rampart's failure to reimburse for joint interest billings and cash calls. Royale seeks in the litigation to foreclose the liens to recover the sums secured thereby or the working interests themselves. Rampart Alaska answered the complaint and asserted a counterclaim against Royale for damages alleging breach of contract, violation of the covenant of good faith and fair dealing, unjust enrichment, defamation, violations of the Alaska Securities Act and seeking to undo the filing of the lien claims. Stephen Hosmer, as an officer of Royale, was also independently named as a third party defendant by Rampart for claims arising out of defamation and violation of the Alaska Securities Act. At this juncture, the case is in its preliminary phase and we are unable to provide a possible outcome other than to note that management vigorously will contest the allegations of the counterclaim and third-party complaint and will seek to aggressively move to realize on its lien claims to recover funds due and owing from Rampart. Because the case is only a number of months old, we are unable to provide an evaluation of the likelihood of an unfavorable outcome nor can we estimate the amount or range of potential loss.

### Item 1A. Risk Factors

Please review the risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2014.

*Potential NASDAQ Delisting.* On April 7, 2015, NASDAQ notified us that the company is not in compliance with the minimum stockholders' equity requirement of the NASDAQ Capital Market listing standards, which require that issuers maintain a minimum stockholders' equity of at least \$2.5 million. We have filed a registration statement with the SEC to sell common stock sufficient to raise net stockholder's equity to a level above \$2.5 million. On May 20, 2015, the registration statement became effective with the SEC. On June 4, 2015, NASDAQ granted an extension through October 5, 2015, to file financial statements demonstrating compliance with the minimum stockholders' equity requirement. The fulfillment of this plan will allow Royale Energy's stock to continue trading on the NASDAQ Capital Market. If the Company becomes delisted from the NASDAQ Capital Market, it will become ineligible to register and sell its securities on SEC Form S-3, and thus the failure to maintain a listing on the NASDAQ Capital Market may make it more difficult for the company to meet its capital needs through the sale of its securities in a public offering.

### Item 6. Exhibits

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	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) 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 4, 2015

/s/ Donald H. Hosmer

Donald H. Hosmer, Co-President and Co-Chief Executive Officer

Date: August 4, 2015

/s/ Stephen M. Hosmer

Stephen M. Hosmer, Co-President, Co-Chief Executive Officer, and Chief Financial Officer



**Exhibit 31.1**

I, Donald H. Hosmer, 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 (the registrant's fourth fiscal in the case of an annual report) 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 4, 2015

/s/ Donald H. Hosmer

Donald H. Hosmer, Co-President and Co-Chief Executive Officer

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**Exhibit 31.2**

I, Stephen M. Hosmer, 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 (the registrant's fourth fiscal in the case of an annual report) 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 4, 2015

/s/ Stephen M. Hosmer

Stephen M. Hosmer, Co-President, Co-Chief Executive Officer and Chief Financial Officer

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**Exhibit 32.1**

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

The undersigned, Donald H. Hosmer, Co-President and Co-Chief Executive Officer of Royale Energy, Inc., a California 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:

(1) the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2015 (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 4, 2015

By: /s/ Donald H. Hosmer

Donald H. Hosmer, Co-President and Co Chief Executive Officer

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**Exhibit 32.2**

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

The undersigned, Stephen M. Hosmer, Co-President, Co-Chief Executive Officer and Chief Financial Officer of Royale Energy, Inc., a California 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:

(1) the Company's Annual Report on Form 10-Q for the period ended June 30, 2015 (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 4, 2015

By: /s/ Stephen M. Hosmer  
Stephen M. Hosmer, Co-President, Co-Chief Executive Officer and Chief Financial Officer

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