

ROYALE REPORT

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Second Quarter 2006

Natural Gas Prices Expected To Rebound

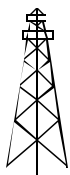
For the past couple of months we have seen energy prices see-saw, down one day and up the next, as investors worry about high inventories vs. possible supply disruptions later this year.

Total gas in storage is now over 54% above the 5-year average for this date. However, strong industrial demand coming back on-line at these prices may absorb some of the gas in storage before it hits the market. As oil prices continue to go up with a record \$71 a barrel and natural gas lagging, this encourages industrial and retail customers to switch to the cheaper energy source preventing further a decline in natural gas prices. This will help maintain the supply/demand balance fairly tight over the long term.

Analysts at UBS believe prices will average \$8/mcf this year, which is about a 15% increase over the current price and will rise to \$9.15/mcf in 2007. Prices that are historically high. In general, natural gas is economically viable above \$6/mcf. Historically, the ratio between crude oil to natural gas prices has been around 6:1, but currently is about 10:1. If the 6:1 ratio returns, gas could be worth around \$11/mcf, which is 60% higher than the current price. Which means, now could be an ideal time to enter the sector.

Despite investors' concerns about the drop in energy prices since December, executives from exploration-and-production companies are optimistic that prices will support stepping-up drilling for years to come, as many companies have recently announced larger E&P budgets.

Yet, with the mere thought of lost output, whether it's cold weather, hurricanes or political tensions, the price of gas will be affected this year.



Alberta's Ability To Export Gas To US Will Continue Declining

Rising demand for gas within Alberta, Canada along with shrinking conventional production will reduce the volumes available for export to the US, the Alberta Energy and Utilities Board said in a report last week.

The EUB said it expects Alberta to consume 42% of its own gas production in 2015, up sharply from 27% last year. At the same time, production from the province — which dipped 2% from 2004 levels — is expected to keep falling.

"The EUB has concluded that natural gas production in the province peaked in 2001," the report said. "High levels of drilling in the past three years have prevented a sharper decline."

Much of Alberta's gas development "has centered on shallow gas in southeastern Alberta, which contains over half of the province's producing gas wells but only 20% of 2005 gas production," the report explained. "New pools are smaller and new wells drilled today are exhibiting lower initial production rates and steeper decline rates. Factoring this in, the EUB believes that new wells drilled will not be able to sustain production levels over the forecast period." *(Gas Daily)*





FIELD UPDATES

California- Sacramento Basin

Victor Ranch 9-16 (2004~C) well has been completed. This well tested a new fault block extending the East Rice Creek field to the north east of Victor Ranch. On May 18th, the company completed the well in a natural gas filled Forbes sand and flowed at a stabilized rate of 1,200 mcf per day. The most prospective zone remains untested.

Victor Ranch 8-16 (2005~B) On May 25th, the Victor Ranch 8-16 well in the East Rice Creek field of the Sacramento basin was successfully tested. This well was drilled as a separate fault block to the Victor Ranch 63-16 well drilled in 1987 that has produced over 2,000,000 mcf of natural gas and is still producing 90 mcf per day. The Victor Ranch 8-16 was tested at a stabilized rate of 1,080 mcf per day.

Elliott #1 (2005~C)

The Elliott #1 well has been completed and tested in a lower zone for 850,000 cubic ft. per day on a 12/64 choke with flowing tubing pressure over 1,000 psig from a new Nortonville zone. Two remaining natural gas filled zones remain behind pipe for future completion.



Moon Canyon

Moon Canyon #2 (2003-B) well in the Uintah Basin, Utah was successfully fracture stimulated in the Morrison formation. The fracing procedure was completed on May 9th and flowed at a stabilized rate of 2,500,000 cubic ft. per day.

Gulf Coast of Texas

The ST 254 #1 (2005~A) well of Calhoun County Texas is producing at an average rate of 134 bopd and 1800 Mcf per day.

Sartwelle #4 (2005~B) The Sartwelle #4, located in Jackson County Texas, is currently producing at a stabilized rate of approximately 1190 mcf of natural gas and 200 barrels of oil per day. The well has been online & producing since April 1st.

Trull B #3 (2005-C) which encountered approximately 31 feet of apparent net pay in various Frio intervals have been completed from the lowest 6 feet of apparent pay, at an early rate of approximately 1,900 mcf of natural gas and 148 barrels of oil per day. Additional potential pay intervals will be added to the producing stream over time.

Turtle Ridge #1 (2006-A) Commencement of High Reserve Potential Frio Test. Turtle Ridge #1 is currently being drilled at a depth of approximately 3,000 feet, targeting the Lower Frio at a depth of approximately 15,650 feet. Results are expected in August.



Analyst says global gas market will keep prices high everywhere

The developing global market for natural gas will keep prices aloft not only in North America but internationally as well, Raymond James & Associates said Monday.

The fast-growing demand for liquefied natural gas “brings the world ever closer to the existence of a single global gas market,” Wayne Andrews, managing director of equity research for Raymond James, said in a report. “That means that global competition for LNG will intensify over time, helping keep gas prices high ~ and linked to crude oil at a Btu parity ratio of 6:1 ~ in countries that will increasingly rely on LNG, such as the US”

In recent years, gas price trends in Canada, Europe and Japan have been “remarkably correlated” with US price movements, Andrews said. “Global supply/demand fundamentals for gas, most substantively exemplified by LNG flows, now help shape prices in every market that depends on LNG,” he added.

And given their increasing dependence on LNG, China, India and other large developing countries that are net energy importers “will likely join the trend,” he said. “This would be bullish for gas prices not only here at home but around the world.”

Bryan Brendle, director of energy and resource policy for the National Assoc. of Manufacturers also said gas will remain a high-priced commodity in the US because of federal clean air standards that effectively mandate the use of gas as a primary fuel for electric generators and because the government continues to place many gas-rich areas off-limits to drilling. (*Gas Daily*)

Analyst: Prices to hover near \$10 through 2007

A strong U.S. economy combined with continued declines in North American production will keep Henry Hub gas prices around \$10/Mcf for the next two years, a Raymond James and Associates energy analyst said Tuesday.

For the second and third quarters, Adkins predicted that gas will sell for an average of \$9.75/Mcf, up 8% from his previous call. For the fourth quarter, he expects prices to average \$10/Mcf, unchanged from his prior forecast.

Adkins also made his first price prediction for 2007, estimating that gas will sell for an average of \$10/Mcf for the full year.

“Given a healthy U.S. economy and growing electric generation demand, we anticipate steadily rising gas demand in 2007, with price as the sole mechanism to curtail excess demand,” he said in a note to clients.

Adkins said his firm’s current oil-to-gas price ratio assumption of 6.2-to-1 may prove too conservative and “should be closer to 5.5-to-1, reflecting the higher costs associated with consuming home heating oil equivalents, such as emissions credits.”

Adkins acknowledged that his gas price forecasts for 2006 and 2007 are about 28% above consensus estimates, but he predicted that time will prove him right.

“For the third year in a row, our reputation for being overly bullish proved unfounded as almost all energy business metrics outperformed our ‘aggressive’ 2005 forecasts,” he said. “The bottom line remains simple: The combination of falling domestic supply, a healthy U.S. economy and favorable fuel-switching ratios should eventually result in natural gas prices trading at or near Btu parity with petroleum liquids.” (*Gas Daily*)

Royale Energy’s

2006-B

Introduction

&

Tax Planning

Seminar

August 14th

9:00am-4:00pm

San Diego

Corporate

Office

RSVP:

events@royl.com

or

800.447.8505



Royale Energy, Inc. is one of California’s leading natural gas exploration and production companies. Royale is publicly-traded as a NASDAQ national market stock under the symbol ROYL. The company leads the industry in development of natural gas reserves in California’s Sacramento and San Joaquin basins.



Visit us on the Internet at: www.royl.com

Facsimile: (619) 881-2899

Phone: (619) 881-2800, (800) 447-8505

San Diego, CA 92108

7676 Hazard Center Drive, Suite 1500

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