

ROYALE REPORT

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Fourth Quarter 2010

5 Reasons Natural Gas Is Poised for Upside

The week before Labor Day marked the 2009 low for natural gas prices. Both the natural gas price and natural gas stocks had a big run through to January 2010, creating great wealth for investors.

Could that happen again this year? How real is the seasonal trade in natural gas?

Looking at this year, 2010, we have on the positive side:

1 Storage is Trending Lower:

- The EIA reported that for the week ended August 27, 2010 working gas in storage was 3,106 billion cubic feet (bcf), only 54 bcf larger than the prior week. U.S. storage is now 208 bcf less than last year at this time and 169 bcf above the 5-year average.
- More importantly, storage injections have been below the 5-year average for 11 consecutive weeks and this trend is set to continue. Gas storage could end the refill season on November 1st at approximately 3,500 bcf. This level of storage heading into the winter heating season supports substantially higher natural gas prices.

#2 Demand Continues to Strengthen:

- According to the EIA demand for the first 6 months of 2010 was approximately 4.3% greater than the first 6 months of 2009.
- Given the strong prices for coal this year, many utilities have stepped up their purchases of gas to run their usage of their natural gas fired power plant fleet.
- Additionally, despite the weak economy in the U.S., industrial demand for natural gas is higher this year compared to 2009.

Also, as we head into the winter heating season, demand for natural gas always picks up and should we have another cold winter storage could be drawn down very quickly.

#3 Oil/Gas Ratio is Bullish:

- While oil and gas on an energy equivalent basis should trade at a 6:1, the two commodities currently trade at approximately 19:1.
- Many natural gas focused exploration and production companies have turned their attention away from natural gas and towards oil. Chesapeake Energy, the most active driller of shale gas wells in the U.S., has dramatically reduced its natural gas drilling in favor of

a dozen new oil focused projects. Other companies have pursued similar paths.

#4 Production Starting to Roll Over:

- Monthly U.S. natural gas production which showed production fell 1.2% from May 2010 to June 2010,
- Due to falling production in the Gulf of Mexico, which accounts for nearly 11% of U.S. production, and several big producing states like Texas, Wyoming and New Mexico, overall U.S. production is headed downward for at least the next two years. Production growth from shale plays can no longer offset declines from the Gulf of Mexico and conventional areas.

#5 Pressure Pumping Chokepoint:

Due to increased demand for fracture stimulation services from the nearly dozen unconventional oil and gas plays currently under development in the U.S. and Canada, many operators are now having to wait weeks and even months for fracturing services. Once gas prices pick up and operators step up the pace of natural gas directed drilling, limited availability of fracture stimulation services will keep U.S. gas production from reversing its recently begun downtrend.

With the fundamentals for natural gas greatly improved over the last couple of months and investment sentiment towards the commodity and gas-weighted equities very negative, contrarian investors may consider getting positioned for a sharp rebound in gas prices.

By Bill Powers and Keith Schaefer





ROYALE FIELD REPORT

Northeast Parks – Royale drilled this prospect as a deviated well to a depth of 6,550 ft (compared to 6,250 ft in the prospectus). The well encountered both reservoir targets as expected with good mud log shows. Electric logs indicated both zones to be potentially productive. The logs also indicated one additional thin zone between the two targets that was below seismic resolution at approximately 5,000 ft. In the lower (main) zone, Royale perforated 4 ft and the well tested at 1,700,000 cubic ft per day of gas per day on a 12/64' choke and with good casing in pressure. The Northeast Parks was put into production on September 16th at an initial rate of 500,000 cubic ft per day.

Wylie #1 – The first 3 ft of perforations in this well continue to produce but had a drop in pressure. The well's decrease in pressure has been measured below that of pipeline pressure. In order to continue to produce this well from the existing 3 ft of perforations Royale is compressing the gas to the pipeline's pressure. Operating plans are to allow the well to produce at this rate across the summer season; this may result in lower rates of production while gas prices are still low. We plan to perforate the main zone - which has a much larger thickness and resistivity - and bring it to production to coincide with the expected up tick in gas prices. From the current 3 ft perforation the well has produced to date 1/7 BCF of gas.

We look forward to greater production from the main zone.

The **Magnum** well located in Colusa County, CA, is projected to have all permitting completed within the

next 2-3 weeks. The well pad will be constructed following the rice harvest at the end September. We plan to drill the Magnum to 5,400 ft as a deviated well that will test both upper and lower targets.

Victor Ranch 3-9 – Drilled to 5,500 ft the Victor Ranch 3-9 encountered mud log shows in three different intervals; at approximately 4,800 ft, 5080ft, and 5,300 ft. The shallower interval corresponded with an identifiable electric log pay. This zone was perforated and tested at just over 1,000,000 cubic ft per day on a 12/64

inch choke. Electric logs indicate that although the rock contained good porosity, the permeability seems to

be on the low side which in turn affects the production rate of the well. The well was connected to pipeline on August 24th and is producing approximately 240,000 cubic ft per day. Natural gas sales will take at least 60 days from initial production before distributions are made on this well. We anticipate that revenue distributions will begin no later than November 2010.



Victor Ranch 3-9 Well Head

THE WALL STREET JOURNAL

Turning Away from Coal

Utilities are increasingly looking to natural gas to generate electricity

"It's pretty clear that, whether it's caused by future carbon legislation or action by the EPA, the migration away from coal has begun," says Constellation Energy Group Chief Executive Mayo Shattuck.

Coal-burning facilities are expected to slip to 10% of total new capacity in the U.S. in 2013, down from 18% in 2009, the U.S. Energy Information Administration reports. Gas, meanwhile, is expected to soar to 82% of new capacity in 2013 from 42% last year.

Natural gas also has the edge in Europe. In 2009, far more gas- than coal-burning plants were built in the European Union—24% of new capacity versus 8.7%.

Full article www.wsj.com ~ September 13, 2010

EUREKA II

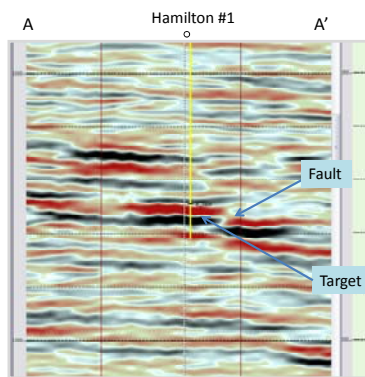
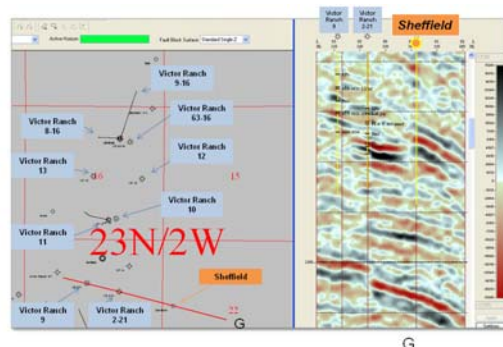
PRIVATE PLACEMENT MEMORANDUM



Now Funding

Royale Energy is offering to qualified investors a direct participation in the drilling of exploration and development wells in California. An investment will consist of a direct working interest participation in four oil and natural gas wells. In addition, the project may offer Federal and State income tax deductions to qualified individuals.

The Royale Sheffield well is located in the Victor Ranch area, in Tehama County of Northern Sacramento Basin. During this decade, Victor Ranch Rice Creek Gas Field has been a prolific natural gas producer for Royale Energy, with gross production totaling over 17.6 billion cubic ft. of gas. The Sheffield prospect is a large fault trap that is located in section 22 of T23N - R2W. The Royale Sheffield well will be drilled as a vertical hole with a planned total depth of 5,700 ft. and is considered to have a moderate risk and a moderately large upside in the 1.0 BCF range.

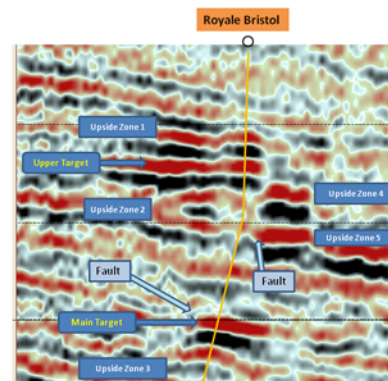


The Royale Hamilton well is located in Colusa County, California in the Arbuckle Gas Field area in the northern part of the Sacramento Basin. The prospect has one main targeted objective which is a middle Forbes seismic amplitude anomaly at a depth of 5,250 feet. The Hamilton anomaly spans approximately 76 acres and is expected to yield about 0.8 Bcf of gas. This is a moderate to moderately low risk well.

The Royale Bristol well is located in the northern part of the Arbuckle area of Colusa County. This prospect is another Forbes objective that was deposited as a part of a deep water fan system. The

prospect is target-rich, with seven zones that can ultimately be producers, five of these zones, if natural gas charged, can produce from one location of a single drill penetration. Royale believes that a total of 1.0- 1.5 BCF natural gas accumulations are possible within the identified targets.

This is not an offer to sell or a solicitation of an offer to buy. Offers are only made through the Private Placement Memorandum.



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*If you are not able to attend, please call or have your
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"The Tax Advantages of Oil & Natural Gas Exploration"



2011 Energy Summit ~ Founders Series

Royale Energy is pleased to announce its 3rd Annual Energy Summit ~ Founders Series schedule. 2011 events will be held in three historic presidential homes and will feature notable speakers who will focus on the future of natural gas. Last year's speakers included T. Boone Pickens, Michelle Malkin and John Barletta to name a few. Come join this informative and inspirational elite weekend while getting an in-depth view of the exciting exploration, drilling and operational process of natural gas in America today.

Mount Vernon ~ Home of George Washington ~ Washington DC

March 31– April 2

(During the Cherry Blossom Festival)

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July

Monticello ~ Home of Thomas Jefferson ~ Charlottesville, VA

October

These all-inclusive getaways are limited. The cost per event is \$995 individual / \$1,195 per couple which include hotel, meals and seminar (excludes travel to and from location) For more information, please contact Royale Energy at (800) 447-8505 or events@royl.com.

The cost will be reimbursed by Royale Energy with a new signed investment agreement.



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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.



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