

ROYALE REPORT

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The Supply-Demand Balance in the Oil & Natural Gas Market Remains Extraordinarily Tight

As we head into the winter season, with no surprise to anyone, the prices of energy continue to rise. In addition to weather, factors that contribute to the rise in price include increased demand from a rebounding global economy and domestic concerns about the war in Iraq and terrorism. Such market forces affect the daily price of “U.S. benchmark crude.” Energy prices also reflect speculation on the future of the global and domestic oil supply. The high price of oil that consumers witness today reflects speculation that demand will continue to outpace supply. As all sectors are, the energy market is strongly affected by liquidity, volatility, and demand and all of those elements have increased sharply in the past year, according to Gregory Zuckerman, reporter for the Wall Street Journal.

In the short term, fossil fuel prices are being driven up by war, political instability, natural disasters and other variables. The long-term outlook is clearer- global supplies are dwindling as demand soars, particularly in China and India, where automobiles are multiplying and economies are growing at breakneck speed.

However, it is important to note that energy prices are still only three-fifths as high, after adjusting for inflation, as they were at their all-time peak in February 1981, noted Greenspan. As oil prices reach over \$50 a barrel, Greenspan stated that he believes that existing technology and improvements spurred by the increase in prices should be sufficient to “ensure the needed supplies (of energy) for a very long while.”

New Corporate Tax Bill- October 2004

Increases Tax Deductions for Oil & Gas

Please call or have your tax advisor contact us for our **TAX BOOKLET**

“The Tax Advantages of Oil & Natural Gas Exploration”

NGSA Sees ‘Upward Pressure’ on Winter Prices

The combination of rising demand and declining production will continue to put upward pressure on gas prices this winter, the Natural Gas Supply Assn. said this month.

“This tight market could really impact customer bills in some regions, particularly during extreme weather,” NGSA Chairman Joseph Blount said during a Washington, D.C., briefing to discuss the producer trade group’s winter supply/demand outlook.

NGSA did not make specific price projections but said key drivers- forecasts for colder-than-normal weather, a growing economy and maturing gas production basins- indicate that the market this heating season could be as tight, if not tighter, than last winter’s.

That portends a robust season for producers but tough times for consumers given that prices during the 2003-04 winter shot to unprecedented levels. For instance, baseload prices for January 2004 ranged from \$6.51/MMBtu to \$8.72/MMBtu in the Northeast and from \$5.29/MMBtu to \$5.87/MMBtu in the West; the national average price for that month was \$5.87/MMBtu.

Blount emphasized that weather is the biggest wild card for the market this coming winter. He noted that the National Weather Service predict a warmer-than-normal heating season in California, the Northwest and the Northern Plains but a colder-than-normal winter from Pennsylvania southwest to central Texas. Most of the country’s midsection is expected to experience normal temperatures.

But if unexpected frigid weather emerges in the major gas-consuming regions of the Northeast, Midwest and Mid-Atlantic, as it did during the 2002-03 heating season, it “could lead to further upward pressure in the market,” Blount said.

Blount also stressed that the Atlantic hurricane season, which already has idled significant Gulf of Mexico gas production, is not over-and it’s unclear how long it will take to bring shut-in volumes back on stream.

Meanwhile, as the economy continues to expand, gas demand will grow along with it and squeeze the market even more, NGSA said. The manufacturing sector’s contribution to the gross national product is expected to grow 5.3%. Source- Platts Daily Gas, October, 2004



Royale Ranked #8 on Highest Return on Shareholders' Equity by Oil & Gas Journal With a 28.8% Return



FIELD UPDATES

California

Raven (2003-C)– Drilled to a total depth of 6,100 ft. Two productive natural gas sands were encountered. The lower sand has been tested at 500 MCF per day. The main pay zone remains behind pipe.

Andrus Island (2003-C)- Tested with a flow rate of 900 MCF per day. Currently waiting on pipeline hookup in November.

Tyler Island (2004-A)- Completed and tested in one of eight potentially productive formations with a flow rate of 900 MCF per day. Waiting on pipeline hookup in November.

Duck Slough (2004-A) Dry hole

Savannah (2004-B)- Currently drilling to a total depth of 6,000 ft.

Kingfisher (2003-B)- Currently drilling to a total depth of 11,655 ft.

Afton Lake Well (2004-A)- Currently in the process of being completed.

Royale Hosted the Next Generation of Petroleum Engineers

On October 30, Royale Energy hosted Stanford Petroleum Engineer graduate students on a fieldtrip to the Kingfisher Well. They spent the day with Phil Nicoll, Chief Engineer, as he showed them the ins and outs of drilling.



Texas Gulf Coast

Wilson (2003-C)- Back on-line after workover in August and is producing 900 MCF.

Trull B1 (2003-C)- Currently is producing 130 MCF with behind pipe potential.

Sartwelle #3/ Appling Deep (2004-B)- Waiting on drilling rig. Expected to begin drilling late November.

Trull M1 (2004-B)- Waiting on drilling rig. Expected to begin drilling late November.

Utah

Moon Canyon (2003-B) Waiting on drilling rig. Expected to begin drilling in November.

The Kingfisher Well



Afton Lake Well



EIA Expects a \$6 US Natural Gas Market During Autumn

Natural gas spot prices (at the Henry Hub) moved below \$6/Mcf in early August, said the US Energy Information Administration, as storage levels continued to track well within normal ranges, and summer demand remained at manageable levels. EIA said that prices are likely to average well above \$6/Mcf for the fall and winter. Annual net, new supply of gas (production plus net imports) fell by about 1 Tcf (4.5%) between 2001 and 2003, with drops in both domestic production and net imports contributing to the downturn. Despite high rates of drilling for natural gas in North America, only marginal improvement in the supply picture is likely through 2005. Therefore, natural gas spot prices are expected to remain high. *Source: World of Oil, September 2004*

Gas Heat Remains Top Choice in New Homes

Gas (Natural Gas and Propane) Heat has captured a majority of both single-family and multi-family units for the first time in 10 years, the Census Bureau reports.

The U.S. Census Bureau's latest "Characteristics of Housing" report found that, overall, 67 percent of the new housing stock completed in 2003 featured natural gas heat. Gas heat was featured in 70 percent of new single-family homes in 2003, up from 69 percent in 2002. Of the remaining homes, 27 percent has electric heat, 2 percent had oil heat and 1 percent has other/none. The natural gas share of heated multi-family homes had not risen above 50 percent since 1994 until 2003, when it rose from 45 percent in 2002 to 51 percent. *Source: American Gas Association, August 2004*

Royale's 11th Annual Fieldtrip Excursion

Raven Well- Northern California

September 25, 2004



Royale Energy hosted their annual field trip this year on September 25, 2004. Over 170 Royale investors, shareholders and future investors traveled to the Raven Well in Rio Vista, CA. This was the 11th year Royale Energy has hosted this event.

The fieldtrip began at the Marriott Hotel in San Francisco, where three buses awaited. Once aboard, the journey was a 2-hour scenic tour through Northern California to the Raven Well.

Upon arrival, all participants received a Royale Energy Hard Hat and enjoyed a tasty BBQ buffet. After lunch, the Royale Team spoke on the process of drilling natural gas. John Caprara- Chief Geologist showed the Raven Well 3D seismic and how we chose that specific location. Keith Seanard and Phil Nicoll, Chief Engineers, showed the operational aspects of drilling.

At the end of the day, the entire team took a group picture, featured here. The fieldtrip provides an opportunity for current investors and shareholders to meet Royale's technical team and see first hand how their investment is put to work finding oil and natural gas. The Raven Well has been completed in one of two natural gas filled zones that were discovered.



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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