ROYALE ENERGY

ROYALE REPORT

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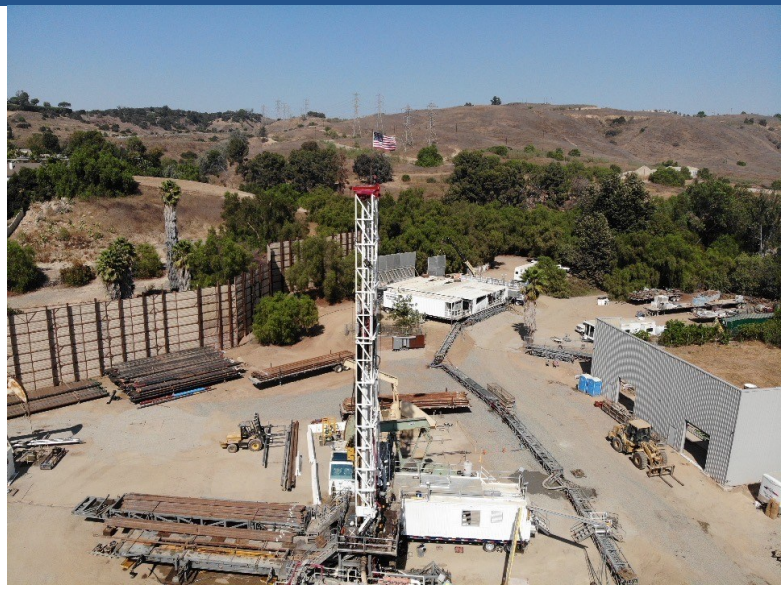
Royale Operations & Reserves III

As an "essential business," Royale Energy has continued to drill and produce its oil reserves and to fund new wells for drilling in the Jameson North and Sansinena oil fields during this challenging year.

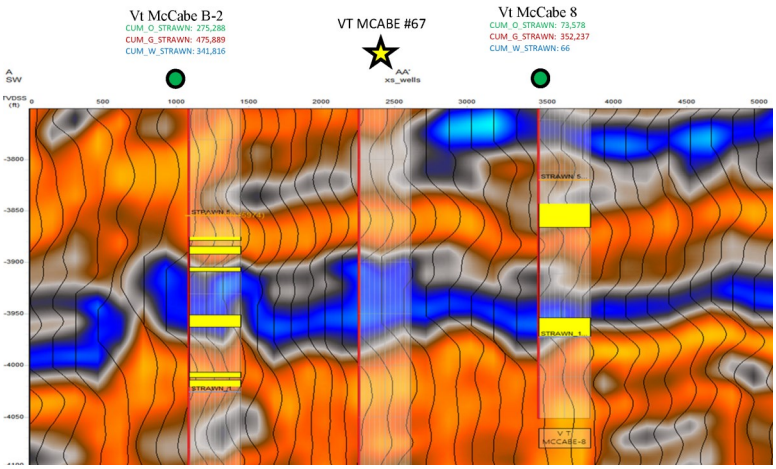
In June, the company announced the drilling and completion of two multi-formation oil wells, McCabe #61 and McCabe #62 in its Jameson North Field (JNF) in the Permian Basin in Texas. Sun Oil originally discovered the JNF and Royale acquired it from General Electric and Clayton Williams Energy in December 2018 as they were devesting their oil and gas assets. GE and Clayton Williams had conducted a 3D seismic survey over the field and identified 20 PUD's (proved undeveloped locations) for development drilling. In addition to these infill drilling opportunities that exist between producing wells in the field, Royale's technical team analyzed old well data and identified existing wells that had been completed and produced from the lower formations but still have behind pipe oil reserves that have not been completed and produced from the shallower Strawn oil formation. This will be a part of the new Royale Reserves III program.

In October, two oil wells, Sansinena 9B-23 and 9B-25, were also drilled and completed in the Sansinena oil field that was acquired from Occidental Petroleum. The 9B-23 appears to have a significant amount of producible oil formation estimated to be 481 ft. spread over a large interval. Based on the abundant mud gas and oil samples these sands have a good indication of high reservoir energy. Sansinena 9B-25 formation evaluation logs also look very promising with over 361 ft. of oil pay. Both wells will be completed and put into production during November. Royale Energy has now drilled five successful infill wells to develop undrained oil reserves in between the original high rate wells at Sansinena.



These wells have proven that infill wells can result in new high rate oil producers that have not been drained by the original wells in the field.

Eight new oil producers have now been drilled in both Sansinena and JNF for a 100% completion rate. With this track record of drilling low risk wells, the company is now funding 2 Sansinena oil wells and 1 Jameson North oil well in the Royale Reserves III project. In addition to these three oil wells, a fourth well McCabe #42 at Jameson North that was drilled by Sun Oil in 1981, will be recompleted for behind pipe oil reserves in the Royale Reserves III project.



THE TAX CUTS & JOB ACTS

Savvy investors are always looking for ways to reduce their tax liabilities and the best way to do this is by seeking out investments that offer robust tax advantages. Thanks to US government policy, development of domestic production of oil and natural gas offers significant tax breaks for investors.

The US government encourages development of domestic oil and natural gas that will reduce its reliance on foreign imports. To incentivize domestic production, U.S. tax policy offers generous advantages to investors who are needed to develop America's oil and gas reserves.

Example of 2020 Tax Savings

1 Unit Drilling Investment:	$100,000
Less: Federal Tax Deduction:	$100,000
(at Maximum Tax Rate 35%) Refund	($35,000)
Less: State Tax Refund:	($10,000)
(where applicable) (State Tax 10%)	
Investment after Federal & State Tax Refund:	**$55,000**

The Positive Effects of the New Tax Cuts and Jobs Act for Oil and Gas Investors

The Tax Cuts and Jobs Acts (TCJA) took effect for the tax year of 2018 and the impact of the new bill has lowered some tax rates and either limited or eliminated many of the deductions that were previously available. For Royale investors the 100% deduction for Intangible Drilling Costs that have been in the tax code since the early 1900s were preserved and the expensing of equipment for the Tangible wellhead equipment has been enhanced and accelerated to 100% deduction the first year, allowing Royale's drilling investors to deduct all of their investment immediately instead of amortizing over several years.

Here's why:

The Option to Expense Intangible Drilling Costs (IDCs) is Retained

This century-old tax provision is the labor and supplies incidentals that are necessary for the drilling and preparation of the well for production of oil and natural gas. This tax provision is critical in helping capital-intensive industries like Oil and Natural Gas to raise money necessary to keep drilling. IDCs are approximately 80% of the total cost of the investment.

Full Expensing of Tangible Drilling Costs (TDCs)

This provision is a significant benefit because the oil and gas industry is very capital intensive.

Tangible drilling costs, lease and well equipment, pipelines, and all other tangible personal property can be fully deducted.

TDCs are approximately 20% of the total cost of the investment and now 100 percent deductible in the year of investment.

Utilizing these deductions can result in up to half of your drilling investment being funded by your tax savings.

Percentage Depletion Deduction is Retained

Depletion applies when production begins, and it allows the owner of a producing oil and or natural gas well to recover their investment through tax deductions over the period in which oil and or gas is produced. The depletion deduction is 15% of gross income for the life of the well.

Your investment will get a full tax deduction for the 2020 tax year and can be deducted from your ordinary income, capital gains, IRA and Pension Fund withdrawals and Roth IRA conversions. Many of our investors that make IRA withdrawals have offset that taxable event with the drilling deductions and at the same time create a monthly income stream that is also partially non-taxable. The depletion allowance grants 15% of the gross income to be tax deductible for the life of the well.

To receive 100% deduction of your total investment for 2020, your investment must be postmarked on or before Dec 31, 2020

ROYALE RESERVES III

PRIVATE PLACEMENT MEMORANDUM

Now Funding

Royale Energy is offering to Accredited Investors a direct participation in the drilling of exploration and developmental wells. An investment will consist of a direct working interest participation in three oil wells and one re-entry oil well.

Sansinena #10 & #11 Oil Wells

The Sansinena oil field, located in the NE portion of the Los Angeles Basin, historically has an average well initial producing rate of 183 barrels of oil per day and an average well Estimated Ultimate Recovery (EUR) of 478,000 barrels of oil over a life of 54 years.

The first three infill wells drilled since acquiring this field initially produced at rates of 113 barrels of oil per day (9A-4 – restricted rate), 338 barrels of oil per day (9B-18) and 266 barrels of oil per day (9B-20), all flowing. The 9B-20 has already produced 63,000 barrels of oil equivalent in 16 months of production and is still producing over 100 barrels of oil per day. The 9B-18 has produced over 43,000 barrels of oil equivalent in 16 months with most months at restricted rates. In October 2020, we drilled two more Sansinena wells. The 9B-25 logged 361 ft. of net oil pay and the 9B-23 logged 481 ft. of net oil pay. Comparing to the 9A-4 having 341 ft. of net pay, 9B-18 having 198 ft. of net pay and 9B-20 having 195 ft. of net pay.

The two Sansinena wells being offered in the Royale Reserves III are infill development wells analogous to the 5 previously drilled infill development wells (9A-4, 9B-18, 9B-20, 9B-23 and 9B-25).

Jameson North Oil Field ~ McCabe VT #42 Re-Entry

The McCabe #42 well will be re-entered for behind pipe Strawn formation oil reserves in the Royale Reserves III project. In 1981, Sun Oil Company drilled the VT McCabe #42 oil well in the North Jameson field and completed the well for production in two of the lower formations making approximately 90,000 barrels of oil.

The log analysis indicate that this well has 64 ft. of net oil pay remaining in the Strawn formation. In comparison, the VT McCabe #18, the offset that is 375 ft. away, produced 119,000 barrels of oil equivalent from 15 ft. of net oil pay in the Strawn formation.

The six immediate offsets to the VT McCabe #42 well have averaged an initial rate of 122 barrels of oil per day and have produced 103,000 barrels of oil equivalent from the Strawn formation.

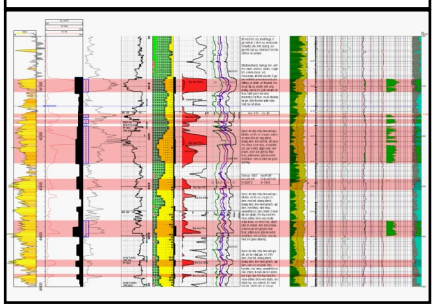
Jameson North Oil Field ~ McCabe VT #67

The McCabe VT #67 is an infill development well for the Strawn formation oil reserves. The Strawn formation wells historically have averaged an initial producing rate of 85 barrels of oil per day and 215 mcf per day from 165 wells. The average well Estimated Ultimate Recovery (EUR) is 119,000 barrels of oil equivalent.

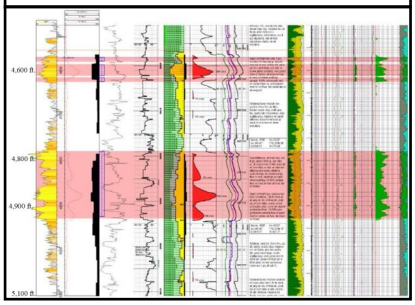
The five immediate offsets to the VT McCabe #67 location have averaged an initial rate of 114 barrels of oil per day and have produced 156,000 barrels of oil equivalent out of the Strawn formation which is better than the field wide average.

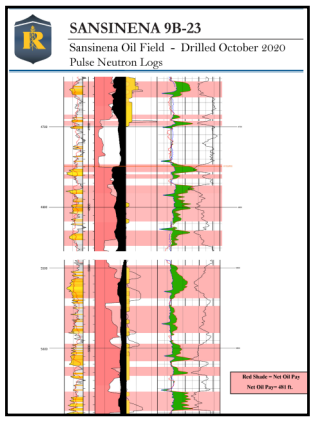
This is not an offer to sell or a solicitation of an offer to buy. Offers are only made through the Private Placement Memorandum.

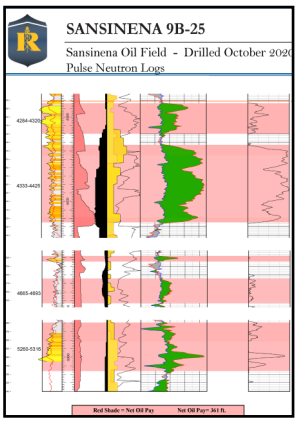
Name: **Sansinena 9B-18**
Drilled: **April 2019**
Initial Production Rate: **338 BOPD**



Name: **Sansinena 9B-20**
Drilled: **May 2019**
Initial Production Rate: **266 BOPD**





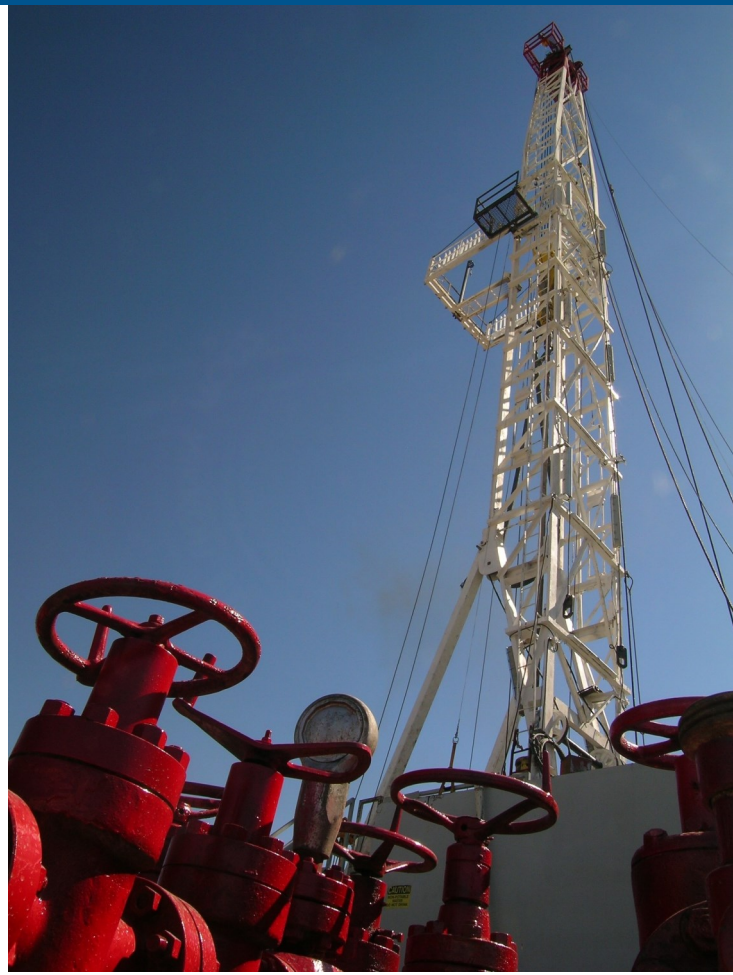


Oil and Gas Industry Under a Biden Administration

The oil industry would be out of favor but not under assault says RBC Capital Markets Helima Croft a top Wall Street analyst. Croft, who expects oil prices to enter into the $50's in the fourth quarter, from closer to $40 a barrel, said she didn't think Biden's position would have much impact on the crude price. She also said it's important to keep in mind that any changes to the tax code would have to be approved by congress. "If it's a situation of a split congress where Republicans retain control of the Senate, those changes are unlikely to pass.

Goldman Sachs says a Biden win could be a "positive catalyst" for oil prices. Goldman commodities team wrote "We do not expect the U.S. election to derail our bullish forecast for oil and gas prices. A Biden administration could provide a further boost to oil prices by making production -especially for shale-more expensive and more regulated, causing tightness in oil and gas supply. Despite the demand outlook as coronavirus continues to weigh on the global economy Goldman remains bullish on both oil and gas prices. Headwinds to U.S. oil and gas production would rise further under Joe Biden administration. Goldman sees improved demand in 2021 and tighter supply superseding election results.

His promise to limit drilling and fracking on Federal lands would not affect Royale's operations that are all on private properties.



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