UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended **September 30, 2018** Commission File No. **000-55912**

ROYALE ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**81-4596368**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1870 Cordell Court, Suite 210
El Cajon, CA 92020
(Address of principal executive offices) (Zip Code)

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

Royale Energy Holdings, Inc.
(Former name, former address and former fiscal year, if changed since last report)

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☐
Non-accelerated filer ☐
Emerging growth company ☐
Accelerated filer ☐
Smaller reporting company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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 November 15, 2018, a total of 48,400,371 shares of registrant's common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ROYALE ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current Assets		
Cash	$ 5,745,709	$ 3,338,693
Other Receivables, net	3,235,592	764,015
Revenue Receivables	193,051	106,007
Receivable from Affiliates	608,913	-
Prepaid Expenses	293,411	149,367
Total Current Assets	10,076,676	4,358,082
Investment in Joint Venture	5,223,596	-
Other Assets	517,714	511,120
Oil and Gas Properties, (Successful Efforts Basis), Equipment and Fixtures, net	7,454,279	1,302,242
Total Assets	$ 23,272,265	$ 6,171,444

See notes to unaudited consolidated financial statements.

ROYALE ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited)	December 31, 2017
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 6,323,027	$ 4,638,879
Royalties Payable	1,676,865	-
Cash Advances on Pending Transactions	-	1,580,000
Deferred Drilling Obligation	5,406,678	5,891,898
Total Current Liabilities	13,406,570	12,110,777
Noncurrent Liabilities:		
Accrued Liabilities – Long Term	1,478,385	-
Accrued Unpaid Guaranteed Payments	1,616,205	-
Asset Retirement Obligation	1,955,184	1,000,908
Total Noncurrent Liabilities	5,049,774	1,000,908
Total Liabilities	18,456,344	13,111,685
Stockholders' Equity (Deficit):		
Convertible Preferred Stock, Series B, $10 par value, 3,000,000 Shares Authorized, 2,012,400 shares issued and outstanding at September 30, 2018	20,124,000	-
Convertible Preferred Stock Dividends Payable	57,891	-
Common Stock, No Par Value, 30,000,000 Shares Authorized 21,850,185 shares issued and outstanding at December 31, 2017	-	41,265,449
Common Stock, .001 Par Value, 280,000,000 Shares Authorized 48,400,371 shares issued and outstanding at September 30, 2018	48,400	-
Additional Paid in Capital	52,550,617	-
Accumulated Deficit	(67,964,987)	(48,205,690)
Total Stockholders' Equity (Deficit)	4,815,921	(6,940,241)
Total Liabilities and Stockholders' Equity	$ 23,272,265	$ 6,171,444

See notes to unaudited consolidated financial statements.

ROYALE ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE PERIODS ENDED SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenues:				
Sale of Oil and Gas	$ 312,827	$ 126,435	$ 1,265,958	$ 477,484
Supervisory Fees, Service Agreement and Other	560,866	211,670	1,125,266	380,527
Total Revenues	873,693	338,105	2,391,224	858,011
Costs and Expenses:				
Lease Operating	438,759	127,306	1,205,577	357,759
Lease Impairment	-	10,721	-	147,558
Well Equipment Write Down	-	-	9,790	6,000
General and Administrative	775,261	456,928	2,242,891	1,471,956
Legal and Accounting	190,594	227,033	1,267,896	895,316
Marketing	161,116	58,952	284,809	221,184
Depreciation, Depletion, Accretion and Amortization	68,586	42,757	344,532	133,061
Total Costs and Expenses	1,634,316	923,697	5,355,495	3,232,834
Gain on Turnkey Drilling	2,194,459	707,789	2,194,459	1,586,322
Income (Loss) From Operations	1,433,836	122,197	(769,812)	(788,501)
Other Income (Loss):				
Interest Expense	(322)	(39,928)	(170,151)	(119,340)
Gain on Settlement of Accounts Payable	117,463	-	163,681	73,128
Loss on Sale of Assets	(135,927)	-	(16,353,600)	-
Loss on Investment in Joint Venture	(342,140)	-	(1,026,404)	-
Loss on Derivative Instruments	-	-	(105,130)	-
Loss on Issuance of Warrants	-	-	(1,439,990)	-
Income (Loss) Before Income Tax Expense	1,072,910	82,269	(19,701,406)	(834,713)
Net Income (Loss)	$ 1,072,910	$ 82,269	$ (19,701,406)	$ (834,713)
Basic Earnings (Loss) Per Share	$ 0.01	$ 0.00	$ (0.47)	$ (0.04)
Diluted Earnings (Loss) Per Share	$ 0.01	$ 0.00	$ (0.47)	$ (0.04)

See notes to unaudited financial statements.

ROYALE ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss)	$ (19,701,406)	$ (834,713)
Adjustments to Reconcile Net (Loss) to Net Cash (Used in) Operating Activities:		
Depreciation, Depletion, Accretion and Amortization	344,532	133,061
Lease Impairment	-	147,558
Sale of Assets	16,353,600	-
Turnkey Drilling Programs	(2,194,459)	(1,586,322)
Settlement of Accounts Payable	(163,681)	(73,128)
Investment in Joint Venture	1,026,404	-
Issuance of Warrants	1,439,990	-
Well Equipment Write Down	9,790	6,000
Change in Fair Value of Derivative Instruments	105,130	-
Debt Issuance Costs Amortization	144,186	-
(Increase) Decrease in:		
Other & Revenue Receivables	(2,558,621)	(131,219)
Prepaid Expenses and Other Assets	(150,638)	(786,286)
Due from Affiliate	318,232	-
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	1,847,829	1,095,411
Royalties Payable	1,676,865	-
Other Liabilities	50,415	-
Net Cash (Used in) Operating Activities	(1,451,832)	(2,029,638)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for Oil and Gas Properties and Other Capital Expenditures	(2,606,680)	(2,903,124)
Proceeds from Turnkey Drilling Programs	4,312,500	2,150,000
Proceeds from Sale of Assets, net	3,779,143	-
Cash Acquired in Merger	548,805	-
Net Cash Provided by (Used in) Investing Activities	6,033,768	(753,124)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(274,920)	-
Cash Advances on Pending Transactions Settlement	(1,900,000)	-
Net Cash (Used in) Financing Activities	(2,174,920)	-
Net Increase (Decrease) in Cash and Cash Equivalents	2,407,016	(2,782,762)
Cash at Beginning of Period	3,338,693	4,994,598
Cash at End of Period	$ 5,745,709	$ 2,211,836
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Cash Paid for Interest	$ 165,151	$ 840
Cash Paid for Taxes	$ 2,400	$ 1,539
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING & FINANCING TRANSACTIONS:		
Issuance of Common Stock in Acquisition	$ 9,546,068	$ -
Issuance of Convertible Preferred Stock, Series B, in Acquisition	$ 20,124,000	$ -
Issuance of Warrants in Joint Venture	$ 1,440,000	$ -
Issuance of Common Stock for Cash Advances and Interest	$ 347,500	$ -
Asset Retirement Obligation Addition	$ 30,000	$ 65,461
Issuance of Common Stock for Accrued Compensation Expense	$ -	$ 25,000

See notes to unaudited consolidated financial statements.

ROYALE ENERGY, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS

In the opinion of management, the accompanying unaudited consolidated 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 nine 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 consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report.

Merger with Matrix Oil Management Corporation

On March 7, 2018, Royale Energy, Inc. ("Royale Energy," formerly known as Royale Energy Holdings, Inc., a Delaware corporation), Royale Energy Funds, Inc. ("REF," formerly known as Royale Energy, Inc., a California corporation), and Matrix Oil Management Corporation ("Matrix") and its affiliates were notified by the California Secretary of State of the filing and acceptance of agreements of merger by the California Secretary of State, to complete the previously announced merger between the companies (the "Merger"). In the Merger, REF was merged into a newly formed subsidiary of Royale Energy, and Matrix was merged into a second newly formed subsidiary of Royale Energy pursuant to the Amended and Restated Agreement and Plan of Merger among REF, Royale Energy, Royale Merger Sub, Inc., ("Royale Merger Sub"), Matrix Merger Sub, Inc., ("Matrix Merger Sub") and Matrix (the "Merger Agreement"). Additionally, in connection with the merger, all limited partnership interest of two limited partnership affiliates of Matrix (Matrix Permian Investments, LP, and Matrix Las Cienegas Limited Partnership), were exchanged for Royale Energy common stock using conversion ratios according to the relative values of each partnership. All Class A limited partnership interests of another Matrix affiliate, Matrix Investments, LP ("Matrix Investments") were exchanged for Royale Energy Common stock using conversion ratios according to the relative value of the Class A limited partnership interests, and $20,124,000 of Matrix Investments preferred limited partnership interests were converted into 2,012,400 shares of Series B Convertible Preferred Stock of Royale Energy. Another Matrix affiliate, Matrix Oil Corporation ("Matrix Operator"), was acquired by Royale Energy by exchanging Royale Energy common stock for the outstanding common stock of Matrix Oil Corporation using a conversion ratio according to the relative value of the Matrix Oil Corporation common stock. Matrix, Matrix Oil Corporation and the three limited partnership affiliates of Matrix called the "Matrix Entities."

The Merger had been previously approved by the respective holders of all outstanding capital stock of REF, Matrix, Royale Energy, Matrix Merger Sub and Royale Merger Sub on November 16, 2017, as previously reported in our Current Report on Form 8-K dated November 16, 2017. The Merger and related transactions are described in detail in our Current Report on Form 8-K dated March 7, 2018, and in Royale Energy's Current Report on Form 8-K dated March 7, 2018 (SEC File No. 000-55912).

As a result of the Merger, REF became a wholly owned subsidiary of Royale Energy, and each outstanding share common stock of REF at the time of the Merger was converted into one share of common stock of Royale Energy. The common stock of Royale Energy is traded on the Over-The-Counter QB (OTCQB) Market System (symbol ROYL).

Under FASB Topic ASC 805, *Business Combinations,* which among other things requires the assets acquired and liabilities assumed to be measured and recorded at their fair values as of the acquisition date, the Company was determined to be the acquirer and as such, the acquisition was accounted for as a business combination.

The preliminary allocation of the purchase price was determined in arms' length negotiations between the parties. Substantially all of the value of the transaction was related to the value of the oil and gas assets acquired with minimal value ascribed to the other assets. The Company considered two valuation methods in its determination of fair value for the oil and natural gas properties; the discounted cash flow analysis and comparable transaction analysis. Assumptions for the discounted cash flow analysis include commodity price, operating costs and capital outlay for future development of the acquired properties, pricing differentials, reserve risking, and discount rates. NYMEX strip pricing, less applicable pricing differentials, was utilized in the discounted cash flow analysis. Risking levels in the discounted cash flow analysis are determined based on a variety of factors, such as existing well performance, offset production and analogue wells. Discount rates used in the discounted cash flow analysis were determined by using the estimated cost of capital, discount rates, as well as industry knowledge and experience. The comparable transaction analysis was performed to establish a range of fair values for similarly situated oil and gas properties that were recently bought or sold in arms-length, observable market transactions. The range of value observed from the Company's analysis of recent market transactions was then utilized as a basis for evaluating the fair value determined via the discounted cash flow method. The Company's fair value conclusion indicated that the discounted cash flow method valuation is in line with the same range as the comparable transactions reviewed, when considering the comparable transactions. Other current liabilities assumed in the acquisition, were carried over at historical carrying values because the assets and liabilities are short term in nature and their carrying values are estimated to represent the best estimate of fair value. Any changes to the estimates used in preparing this preliminary purchase price allocation could result in a corresponding change in the final purchase price allocation.

The following table summarizes the consideration transferred, fair value of assets acquired and liabilities assumed:

	March 7, 2018
Consideration:	
Value of Royale Common Stock issued	$ 9,546,068
Value of Series B Convertible Preferred Stock issued	20,124,000
Total consideration	$ 29,670,068
Fair Value of Liabilities Assumed:	
Current liabilities	19,624,592
Other liabilities	3,125,394
Asset Retirement obligations	1,419,544
Total fair value of liabilities assumed	24,169,530
Total consideration plus liabilities assumed	$ 53,839,598
Fair Value of Assets Acquired:	
Cash	$ 548,805
Current assets	3,655,173
Proved and unproved crude oil and gas properties	48,632,870
Land	1,002,750
Total Fair Value of Assets Acquired	$ 53,839,598

In accordance with FASB Topic ASC 805, the following unaudited supplemental pro forma condensed results of operations present combined information as though the business combination had been completed as of January 1, 2018. The unaudited supplemental pro forma financial information was derived from the historical revenues and direct operating expenses of Royale Energy, Inc. and Matrix Oil Management Corporation and its affiliates. These unaudited supplemental pro forma results of operations for the consolidated companies as of March 31, 2017, are provided for illustrative purposes only and do not purport to be indicative of the actual results that would have been achieved by the consolidated company for the periods presented or that may be achieved by the consolidated company in the future.

	Three months ended March 31, 2018			Three months ended March 31, 2017		
	Royale Energy, Inc.	Matrix Oil Management Corp	Consolidated	Royale Energy, Inc.	Matrix Oil Management Corp	Consolidated
	(Unaudited)					
Revenue	$ 119,473	$ 1,798,531	$ 1,918,004	$ 274,398	$ 1,120,427	$ 1,394,825
Net Loss	$ (1,200,576)	$ (751,111)	$ (1,951,687)	$ (987,644)	$ (549,922)	$ (1,537,566)
Net Loss available to common shareholders	$ (1,200,576)	$ (751,111)	$ (1,951,687)	$ (987,644)	$ (549,922)	$ (1,537,566)
Pro forma Loss per common share Basic and diluted	$ (0.04)	$ (0.02)	$ (0.06)	$ (0.05)	$ (0.02)	$ (0.07)

Formation of RMX and Asset Contribution

On April 13, 2018, Royale Energy, Inc., and two of Royale's subsidiaries, Royale Energy Funds, Inc. and Matrix Oil Management Corporation (the "Royale Entities") completed the Subscription and Contribution Agreement ("Contribution Agreement"), in which the Royale Entities and CIC RMX LP ("CIC") entered into the Contribution Agreement and certain other agreements providing that the Royale Entities would contribute certain assets to RMX Resources, LLC ("RMX"), a newly formed Texas limited liability company formed to facilitate the investment from CIC. In exchange for its contributed assets, Royale received a 20% equity interest in RMX, an equity performance incentive interest and up to $20.0 million to pay off Royale Entities senior lender, Arena Limited SPV, LLC., in full, and to pay Royale Entities trade payables and other outstanding obligations. CIC contributed an aggregate of $25.0 million in cash to RMX in exchange for (i) an 80% equity interest in RMX with preferred distributions until certain thresholds are met, (ii) a warrant ("Warrant") to acquire up to 4,000,000 shares of Royale's common stock at an exercise price of $.01 per share and registration rights pursuant to a Registration Rights Agreement.

The Contribution Agreement was completed in a two-step closing and funding, with the First Closing consummated on April 4, 2018 and the Second Closing consummated on April 13, 2018 with the Royale Entities. In connection with the Second Closing, the parties entered into a letter agreement related to the preliminary Settlement Statement process. The parties agreed that, in lieu of the payment originally contemplated under Section 1.6(v) of the Contribution Agreement, the Royale Entities would receive the sum of $4,000,000, subject to adjustment. The $4,000,000 delivered at the Second Closing was an advance against amounts due the Royale Entities as Purchase Price, and the advance was subject to further adjustment in accordance with the Contribution Agreement.

RMX has two classes of stock and a six-member board of directors. Royale has two seats on the board giving it a third of the Board. Royale has designated Michael McCaskey and Johnny Jordan as its members of the RMX board. The return targets for CIC through its funding of RMX provide for a "waterfall" style return profile with the first distributions going to CIC until it has received all Unpaid Preferred Return and Unpaid Preferred Enhanced Return, as defined by the Company's Agreement.

As part of the formation of the joint venture, Royale contributed Matrix Oil Corporation ("MOC") to RMX. MOC has the permits and licenses to operating oil and gas properties in California. It was the operating entity for the Matrix group of companies that were acquired on February 28, 2018, discussed above. This allows the RMX joint venture to be the operator of record for the contributed assets.

Royale accounts for its ownership interest in RMX following the equity method of accounting, in accordance with ASC 323. By agreement, Royale has an initial equity value of $6.25 million or 20% of the total equity of the joint venture with CIC having an initial equity value of $25.0 million or 80% of the total equity of the joint venture.

The Royale Entities contributed 100% of their interest in the Sansinena Field, 100% of the Sempra Field, 50% of the Bellevue Field, 100% of the Whittier Main Field, and 50% of the Whittier Field. The result of the transfer of oil and gas properties and surface rights for cash as described above and a 20% working interest in RMX resulted in Royale recording a loss of approximately $16.4 million. The contribution by Royale of warrants to acquire 4,000,000 shares of Royale common stock caused Royale to record a loss of approximately $1.44 million. In addition, the Contribution Agreement called for an effective date of the property transfer of February 28, 2018 which required a purchase price adjustment of approximately $334,000 in the form of a cash contribution to RMX and an increase in the loss on the sale. The transfer of MOC to RMX as the operating company provided an amount due Royale of approximately $640,000, which was recorded as a due from affiliate during the period in 2018.

The RMX joint venture has a senior revolving loan facility with a creditor. The borrowing base of the facility is $17.5 million with $4.2 million remaining undrawn at September 30, 2018.

As part of the joint venture, RMX entered into a Master Service Agreement ("MSA") calling for Royale Energy to provide land, engineering and support services for the joint venture. For these services, Royale will receive $180,000 per month for the first year, renewable after one year at a reduced rate of $150,000 per month and subject to termination on 90 days notice. These amounts are included in Supervisory Fees, Service Agreement and Other.

Listed below is the summarized information required under Rule 3-09 of regulation S-X, Article 10 for Royale's investment in RMX:

	RMX Resources, LLC		Royale Energy, Inc. Share	
	Three Months Ended September 30, 2018	Six Months Ended September 30, 2018	Three Months Ended September 30, 2018	Six Months Ended September 30, 2018
Net Operating Revenue	$ 2,564,237	$ 5,044,963	$ 512,847	$ 1,008,993
Loss from Continuing Operations	(603,468)	(1,712,007)	(120,694)	(342,401)
Net Loss	(1,675,389)	(5,132,019)	(335,078)	(1,026,404)

Consolidation

The accompanying consolidated financial statements include the accounts of Royale Energy, Inc. (sometimes called the "Company" "we," "our," "us," or "Royale Energy"), REF, and Matrix Oil Management Corporation and its subsidiaries. All entities comprising the consolidated financial statements of Royale Energy have fiscal years ending December 31. All material intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

The accompanying consolidated 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. As reflected in the accompanying financial statements, the Company has negative working capital, losses from operations and negative cash flows from operations.

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 and Going Concern

The primary sources of liquidity have historically been issuances of common stock and operations. We believe that the completion of the Merger with Matrix and the Contribution Agreement with CIC, which created RMX, will enable us to return to positive cash flow. There is some doubt about the company's ability to meet liquidity demands, and 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 interest.

The Company's consolidated financial statements reflect an accumulated deficit of $67,964,987, a working capital deficiency of $3,329,894 and a stockholders' equity of $4,815,921. These factors raise substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management's plans to alleviate the going concern include the completion of its obligation under its turnkey drilling contracts, through issuances of common stock and the reduction of overhead costs. There is no assurance that additional financing will be available when needed or that management will be able to obtain financing on terms acceptable to the Company and whether the Company will become profitable and generate positive operating cash flow.

Revenue Recognition

On January 1, 2018, we adopted the new ASC Topic 606, Revenue from Contracts with Customers and all the related amendments ("new revenue standard") using the modified retrospective method.

We evaluated the effect of transition by applying the provisions of the new revenue standard to contracts with remaining obligations as of January 1, 2018. No cumulative adjustment to retained earnings was necessary as a result of adopting this standard.

Results for reporting periods beginning after January 1, 2018 are presented under the new revenue standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies.

We concluded that the adoption of the new revenue standard did not result in any changes to our consolidated balance sheet or statement of cash flow.

The majority of our revenues are derived from the sale of crude oil and condensate, natural gas liquids ("NGLs") and natural gas under spot and term agreements with our customers.

The pricing in our hydrocarbon sales agreements are variable, determined using various published benchmarks which are adjusted for negotiated quality and location differentials. As a result, revenue collected under our agreements with customers is highly dependent on the market conditions and may fluctuate considerably as the hydrocarbon market prices rise or fall. Typically, our customers pay us monthly, within a short period of time after we deliver the hydrocarbon products. As such, we do not have any financing element associated with our contracts. We do not have any issues related to returns or refunds, as product specifications are standardized for the industry and are typically measured when transferred to a common carrier or midstream entity, and other contractual mechanisms (e.g., price adjustments) are used when products do not meet those specifications.

In limited cases, we may also collect advance payments from customers as stipulated in our agreements; payments in excess of recognized revenue are recorded as contract liabilities on our consolidated balance sheet.

Under our hydrocarbon sales agreements, the entire consideration amount is variable either due to pricing and/or volumes. We recognize revenue in the amount of variable consideration allocated to distinct units of hydrocarbons transferred to a customer. Such allocation reflects the amount of total consideration we expect to collect for completed deliveries of hydrocarbons and the terms of variable payment relate specifically to our efforts to satisfy the performance obligations under these contracts. Our performance obligations under our hydrocarbon sales agreements are to deliver either the entire production from the dedicated wells or specified contractual volumes of hydrocarbons.

We often serve as the operator for jointly owned oil and gas properties. As part of this role, we perform activities to explore, develop and produce oil and gas properties in accordance with the joint operating arrangement and collective decisions of the joint parties. Other working interest owners reimburse us for costs incurred based on our agreements. We determined that these activities are not performed as part of customer relationships, in accordance with the new revenue standard, and such reimbursements will continue to not be recorded as revenues within the scope of the new revenue standard after the first quarter of 2018. Prior to this, such cost reimbursements were included in revenue.

We commonly market the share of production belonging to other working interest owners as the operator of jointly owned oil and gas properties. We concluded that those marketing activities are carried out as part of the collaborative arrangement, and we do not purchase or otherwise obtain control of other working interest owners' share of production. Therefore, we act as a principal only in regard to the sale of our share of production and recognize revenue for the volumes associated with our net production.

The Company frequently sells a portion of the working interest in each well it drills or participates in to third party investors and retains a portion of the prospect for its own account. The Company typically guarantees a cost to drill to the third-party drilling participants and records a loss or gain on the difference between the guaranteed price and the actual cost to drill the well. When monies are received from third parties for future drilling obligations, the Company records the liability as Deferred Drilling Obligations. Once the contracted depth for the drilling of the well is reached and a determination as to the commercial viability of the well (typically call "Casing Point Election" or "Logging Point"), the difference in the actual cost to drill and the guaranteed cost is recorded as income or expense depending on whether there was a gain or loss.

Crude oil and condensate

For the crude sales agreements, we satisfy our performance obligations and recognize revenue once customers take control of the crude at the designated delivery points, which include pipelines, trucks or vessels.

Natural gas and NGLs

When selling natural gas and NGLs, we engage midstream entities to process our production stream by separating natural gas from the NGLs. Frequently, these midstream entities also purchase our natural gas and NGLs under the same agreements. In these situations, we determined the performance obligation is complete and satisfied at the tailgate of the processing plant when the natural gas and NGLs become identifiable and measurable products. We determined the plant tailgate is the point in time where control, as defined in the new revenue standard, is transferred to midstream entities and they are entitled to significant risks and rewards of ownership of the natural gas and NGLs.

The amounts due to midstream entities for gathering and processing services are recognized as shipping and handling cost and included as lease operating expense in our consolidated statement of operations, since we make those payments in exchange for distinct services with the exception of natural gas sold to PG&E where transportation is netted directly against revenue. Under some of our natural gas processing agreements, we have an option to take the processed natural gas and NGLs in-kind and sell to customers other than the processing company. In those circumstances, our performance obligations are complete after delivering the processed hydrocarbons to the customer at the designated delivery points, which may be the tailgate of the processing plant or an alternative delivery point requested by the customer.

Turnkey Drilling Obligations

These Turnkey Agreements are managed by the Company for the participants of the well. The collections of pre-drilling AFE amounts are segregated by the Company and the gains and losses on the Turnkey Agreements are recorded in income or expense at the time of the casing point election in accordance with ASC 932-323-25 and 932-360. The Company manages the performance obligation for the well participants and only records revenue or expense at the time the performance obligation of the Turnkey Agreement has been satisfied.

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.

The project construction phase commences with the development of the detailed engineering design and ends when the constructed assets are ready for their intended use. Interest costs, to the extent they are incurred to finance expenditures during the construction phase, are included in property, plant and equipment and are depreciated over the service life of the related assets.

Royale Energy uses the "successful efforts" method to account for its exploration and production activities. Under this method, costs to acquire mineral interests in oil and natural gas properties, to drill exploratory wells in progress and those that find proved reserves, and to drill development wells are capitalized. Exploratory well costs when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where Royale Energy is making sufficient progress assessing the reserves and the economic and operating viability of the project are capitalized. Exploratory well costs not meeting these criteria are charged to expense. Other exploratory expenditures, including geophysical costs and annual lease rentals, are expensed as incurred. The Company accumulates its proportionate share of costs on a well-by-well basis.

Acquisition costs of proved properties are amortized using a unit-of-production method, computed on the basis of total proved oil and gas reserves.

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.

Production costs are expensed as incurred. Production involves lifting the oil and gas to the surface and gathering, treating, field processing and field storage of the oil and gas. The production function normally terminates at the outlet valve on the lease or field production storage tank. Production costs are those incurred to operate and maintain Royale Energy's wells and related equipment and facilities. They become part of the cost of oil and gas produced. These costs, sometimes referred to as lifting costs, include such items as labor costs to operate the wells and related equipment; repair and maintenance costs on the wells and equipment; materials, supplies and energy costs required to operate the wells and related equipment; and administrative expenses related to the production activity. 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.

We evaluate our oil and gas producing properties, including capitalized costs of exploratory wells and development costs, for impairment of value whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected undiscounted future cash flows from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized based on the fair value of the asset. Oil and gas producing properties are reviewed for impairment on a field-by-field basis or, in certain instances, by logical grouping of assets if there is significant shared infrastructure or contractual terms that cause economic interdependency amongst separate, discrete fields. Oil and gas producing properties deemed to be impaired are written down to their fair value, as determined by discounted future net cash flows or, if available, comparable market value. We evaluate our unproved property investment and record impairment based on time or geologic factors. Information such as drilling results, reservoir performance, seismic interpretation or future plans to develop acreage is also considered. When unproved property investments are deemed to be impaired, this amount is reported in exploration expenses in our consolidated statements of income. During the nine months ended September 30, 2017, impairment losses of $147,558 were recorded on various capitalized lease and land costs that were no longer viable. During the same period in 2018, no impairment losses were recorded. The valuation allowances are reviewed at least annually.

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 for various reasons such as weather, permitting, drilling rig availability and/or contractual obligations. At September 30, 2018 and December 31, 2017, Royale Energy had Deferred Drilling Obligations of $5,406,678 and $5,891,898, 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 contact 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.

Other Receivables

Our other receivables consist of joint interest billing 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 September 30, 2018 and December 31, 2017, the Company established an allowance for uncollectable accounts of $1,958,640 and $1,975,660, 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. Based upon historical receipts of revenue receivables, the Company has determined that an allowance for revenue receivables is currently not necessary.

Receivable from Affiliates

Our receivable from affiliate consists of receivables related to the ongoing transactions between Royale Energy and RMX Resources, LLC and its subsidiary, MOC. Royale has prepared a post-closing "Final Settlement Statement" to RMX in accordance with Section 7.3 of the Contribution Agreement dated April 4, 2018. That settlement reflects an amount due Royale of $911,226 of which $402,546 reflects an amount due Royale related to the final settlement agreement between an outside third party and RMX. Royale has received notice of disputed charges and considers the collection of a portion as doubtful.

Other Assets

Our other assets consist of long-term cash deposits or bank certificates of deposit required by county government agencies or other companies mainly due to Royale's well operations.

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 consolidated 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 September 30, 2018 and December 31, 2017, Royale Energy did not have any financial assets measured and recognized at fair value on a recurring basis. The Company estimates asset retirement obligations pursuant to the provisions of FASB ASC Topic 410, "*Asset Retirement and Environmental Obligations"* ("FASB ASC 410"). The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with oil and gas properties. Given the unobservable nature of the inputs, including plugging costs and reserve lives, the initial measurement of the asset retirement obligation liability is deemed to use Level 3 inputs.

Accounts Payable and Accrued Expenses

At September 30, 2018, the components of accounts payable and accrued expenses consisted of $3,222,612 in trade accounts payable due to various vendors, $2,099,509 in payables and accruals related to direct working interest investors revenues and operating activities, $409,725 in accrued expenses related to current drilling efforts, $24,702 due to affiliates, $193,743 for accrued liabilities for amounts set aside mainly for the plugging and abandonment of certain wells, $324,443 for employee related taxes and accruals, $33,570 in deferred rent and $14,723 in federal and state income taxes payable. At December 31, 2017, the components of accounts payable and accrued expenses consisted of $2,392,755 in trade accounts payable due to various vendors, $688,002 in payables and accruals related to direct working interest investors revenues and operating costs, $483,734 in accrued expenses related to current drilling efforts, $438,667 in legal settlement payables related to Cash Advances on Pending Transactions, $266,110 for accrued liabilities for amounts set aside mainly for the plugging and abandonment of certain wells, $93,619 for employee related taxes and accruals, $223,833 related to interest payable on cash advances on pending transactions, $35,036 in deferred rent and $17,123 in federal and state income taxes payable.

Secured Term Debt

Prior to the Merger, Matrix had an outstanding term loan agreement with Arena Limited SPV, LLC (Term Loan) for approximately $12.4 million. The original maturity date of the Term Loan was June 15, 2018, it was secured by the assets of Matrix, and contained financial covenants commencing June 30, 2016 and thereafter, as defined in the term loan agreement. The Term Loan was repaid in full in April 2018 in connection with the Contribution Agreement with CIC. The Company recognized $164,401 in interest expense for the period ended September 30, 2018.

Accrued Liabilities – Long Term

Prior to the Merger, Matrix had outstanding long term liabilities for interest on notes payable due to certain Matrix principals. At September 30, 2018, the $1,478,385 balance remains the same as the time of merger.

Accrued Unpaid Guaranteed Payments

Prior to the Merger, Matrix had outstanding accrued unpaid guaranteed payments for unpaid salaries due to certain Matrix employees. At September 30, 2018, the $1,616,205 balance remains the same as the time of merger.

Cash Advances on Pending Transactions

In July 2016, we received a cash investment of $1,580,000 from two investors to purchase convertible promissory notes of $1,280,000 and $300,000, with a conversion price of $0.40 per share, with warrants to purchase one share of common stock for every three shares of common stock issuable upon conversion of the notes. The funds from these transactions were used to continue drilling activities, fund expenses incurred in connection with the completion of Royale Energy's merger with Matrix Oil Corporation and for general corporate purposes. The notes originally matured on August 2, 2017, one year from the date of issuance, and carried a 10% interest rate, with a default rate of 25%. Shortly before completion of the Merger, the $300,000 note and interest of $47,500 was converted into 750,000 shares of Royale common stock valued at $347,500, and Royale agreed to a cash settlement with the holder of the $1,280,000 note for $1,900,000, which was paid in full on April 13, 2018.

Commodity Derivative Financial Instruments

From time to time, Matrix utilized derivative financial instruments, consisting of puts and swaps, in order to manage exposure to changes in oil commodity prices. These derivative contracts require financial settlements with counterparties based on comparison of various market prices for oil and either floor or swap benchmark prices. The notional amounts of these derivative contracts are economically based on a percentage of estimated production from proved reserves.

The Company accounts for derivative contracts in accordance with FASB ASC Topic 815, *Accounting for Derivative Instruments and Hedging Activities*, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. Currently, the Company has elected not to designate any derivative contracts as accounting hedges under the provisions of FASB ASC Topic 815.

As such, all derivative contracts are carried at fair value on the balance sheet and are marked-to-market at the end of each period with a related adjustment to earnings. Unrealized gains or losses are recorded as gain (loss) on derivatives in unrealized gain (loss) on derivative instruments in the consolidated statements of operations. Realized gain or losses are recorded net in oil and gas sales in the consolidated statements of operations.

Fair Values – Recurring

The Company's derivative contracts are carried at fair value under ASC Topic 820. The fair value is based upon independently sourced market parameters. The fair value is estimated using forward-looking price curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. At September 30, 2018, the Company did not have any derivative contracts.

Fair Values - Non-recurring

The Company applies the provisions of the fair value measurement standard to its non-recurring, non-financial measurements including oil and natural gas property impairments and other long-lived asset impairments. These items are not measured at fair value on a recurring basis but are subject to fair value adjustments only in certain circumstances.

Recently Issued Accounting Pronouncements

Not Yet Adopted

ASU 2018-13: Fair Value Measurement (Topic 812) - In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement - Disclosure Framework (Topic 820) ("ASU 2018-13"). ASU 2018-13 modifies the disclosure requirements for fair value measurements. ASU 2018-13 is effective for public companies for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures. The Company is currently evaluating the impact of adopting ASU 2018-13 on its consolidated financial statements.

ASU 2018-05: Income Taxes (Topic 740) – In March 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-05, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, to add various SEC paragraphs pursuant to the issuance of SAB 118 to ASC 740. SAB 118 was issued by the SEC in December 2017 to provide immediate guidance for accounting implications of U.S. tax reform under the TCJA. The Company is currently evaluating the effects of adopting ASU 2016-02 on its consolidated financial statements, but the adoption is not expected to have a significant impact on the Company's financial statements.

ASU 2017-01: Business Combinations (Topic 805) – Clarifying the Definition of a Business - In January 2017, FASB issued ASU 2017-01. The objective of ASU 2017-01 is to clarify the definition of a business by adding guidance on how entities should evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 will be effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods in the year of adoption. Early adoption is permitted for any interim or annual period. The adoption of this guidance will not have any impact on the Company's results of consolidated operations or cash flows.

ASU No. 2016-02: Leases (Topic 842). In February 2016, FASB issued ASU 2016-02 which aims to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing agreements. Entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effects of adopting ASU 2016-02 on its consolidated financial statements, but the adoption is not expected to have a significant impact on the Company's financial statements.

ASU No. 2016-13: Financial Instruments-Credit Losses (Topic 326) - In June 2016, the FASB issued a new accounting standard update that changes the impairment model for trade receivables, net investments in leases, debt securities, loans and certain other instruments. The standard requires the use of a forward-looking "expected loss" model as opposed to the current "incurred loss" model. This standard is effective for us in the first quarter of 2020 and will be adopted on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the adoption period. Early adoption is permitted starting January 2019. We are evaluating the provisions of this accounting standards update and assessing the impact, if any, it may have on the Company's consolidated results of operations, financial position or cash flows.

ASU No. 2017-12: Derivatives and Hedging (Topic 815) - In August 2017, the FASB issued a new accounting standard update that amends the hedge accounting model to enable entities to hedge certain financial and nonfinancial risk attributes previously not allowed. The amendment also reduces the overall complexity of documenting, assessing and measuring hedge effectiveness. This standard is effective for us in the first quarter of 2019. Early adoption is permitted in any interim or annual period. The amendment mandates modified retrospective adoption when accounting for hedge relationships in effect as of the adoption date. We are evaluating the provisions of this accounting standards update, including transition requirements, and are assessing the impact it may have on the Company's consolidated results of operations, financial position, or cash flows.

Recently Adopted

ASU 2016-01: Financial Instruments – Overall – Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10) In January 2016, FASB issued ASU 2016-01 which requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in Other Comprehensive Income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of AFS debt securities in combination with other deferred tax assets. The Update provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The Update also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The new standard becomes effective for fiscal years beginning after December 15, 2017. Early adoption is only permitted for the provision related to instrument-specific credit risk and the fair value disclosure exemption provided to nonpublic entities. The Company has adopted this new standard. There was no impact on the Company's consolidated results of operations or cash flows.

ASU 2017-09: Compensation - Stock Compensation (Topic 718) – Scope of Modification Accounting - In May 2017, the FASB issued ASU 2017-09, which provides guidance about which changes to the terms or conditions of a share-based payment awarded require an entity to apply modification accounting. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The amendments in ASU 2017-09 are to be applied prospectively to an award modified on or after the adoption date, consequently the impact will be dependent on the modification of any share-based payment awards and the nature of such modifications. The Company has adopted this new standard. There was no impact on the Company's consolidated results of operations or cash flows.

ASU 2016-09: Compensation – Stock Compensation (Topic 718) In March 2016, the FASB issued a new accounting standard update that changes several aspects of accounting for share-based payment transactions, including a requirement to recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This standard was effective for us in the first quarter of 2017. The new standard requires a company to make a policy election on how it accounts for forfeitures; the Company elected to continue estimating forfeitures using the same methodology practiced prior to adoption of this standard.

NOTE 2 – LOSS PER SHARE

Basic and diluted loss per share are calculated as follows:

	Three Months Ended September 30,			
	2018		2017	
	Basic	Diluted	Basic	Diluted
Net Income	$ 1,072,910	$ 1,072,910	$ 82,269	$ 82,269
Less: Preferred Stock Dividend	57,891	57,891	--	--
Less: Preferred Stock Dividend in Arrears	353,135	353,135	--	--
Net Income (Loss) Attributable to Common Shareholders	661,884	661,884	82,269	82,269
Weighted average common shares outstanding	48,400,371	48,400,371	21,832,523	21,832,523
Effect of dilutive securities	--	24,027,522	--	--
Weighted average common shares, including Dilutive effect	48,400,371	72,427,893	21,832,523	21,832,523
Per share:				
Net Income (Loss)	$ 0.01	$ 0.01	$ 0.00	$ 0.00

	Nine Months Ended September 30,			
	2018		2017	
	Basic	Diluted	Basic	Diluted
Net Loss	$ (19,701,406)	$ (19,701,406)	$ (834,713)	$ (834,713)
Less: Preferred Stock Dividend	57,891	57,891	--	--
Less: Preferred Stock Dividend in Arrears	353,135	353,135	--	--
Net Loss Attributable to Common Shareholders	(20,112,432)	(20,112,432)	(834,713)	(834,713)
Weighted average common shares outstanding	42,662,419	42,662,419	21,832,523	21,832,523
Effect of dilutive securities	--	--	--	--
Weighted average common shares, including Dilutive effect	42,662,419	42,662,419	21,832,523	21,832,523
Per share:				
Net Loss	$ (0.47)	$ (0.47)	$ (0.04)	$ (0.04)

For the nine month period ended September 30, 2018, Royale Energy had dilutive securities of 24,024,647. 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:

	September 30, 2018 (Unaudited)	December 31, 2017
Oil and Gas		
Producing and non-producing properties, including drilling costs	$ 9,515,417	$ 3,755,705
Undeveloped properties	9,152	1,435
Lease and well equipment	4,183,075	4,119,802
	13,707,644	7,876,942
Accumulated depletion, depreciation & amortization	(6,765,865)	(6,582,648)
	6,941,779	1,294,294
Commercial and Other		
Land	501,375	-
Vehicles	40,061	40,061
Furniture and equipment	1,096,139	1,092,926
	1,637,575	1,132,987
Accumulated depreciation	(1,125,075)	(1,125,039)
	512,500	7,948
	$ 7,454,279	$ 1,302,242

The guidance set forth in the Continued Capitalization of Exploratory Well Costs paragraph of FASB ASC Topic 932-Extractive Activities – Oil and Gas 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 2018 or 2017.

NOTE 4 – INCOME TAXES

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Tax Reform Legislation"). Tax Reform Legislation, which is also commonly referred to as "U.S. tax reform", significantly changes U.S. corporate income tax laws by, among other things, reducing the U.S. corporate income tax rate to 21% starting in 2018, and repeal of the corporate alternative minimum tax ("AMT"), and a one-time deemed repatriation of accumulated foreign earnings. In the fourth quarter of 2017, we remeasured our deferred taxes at 21%, in accordance with U.S. GAAP standards. The impact of the remeasurement on our federal deferred tax assets and liabilities was equally offset by an adjustment to our valuation allowance with no material impact to current year earnings as more fully discussed below.

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 2015, management reviewed the reliability of the Company's net deferred tax assets, and due to the Company's continued cumulative losses in recent years, the Company 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 2018.

The calculation below does not consider the tax basis of the assets acquired through the merger with Matrix Oil Management Corporation ("MOMC") as discussed in Note 1 above. Since the merger with MOMC and other Matrix entities was a tax-free merger, the tax basis of the oil and gas properties contributed to RMX by Royale retained the tax basis of the various Matrix entities at the time of the merger. At this time, Royale has approximately $20.0 million in Net Operating Losses ("NOL") carryforwards including a $3.7 million loss incurred during 2017. MOMC has an NOL carryforward of approximately $5.0 million at the time of the merger. The application of pre-merger NOLs to post merger gains is covered by IRS regulation 382 and requires a thorough review of the ownership percentages of both Royale and Matrix before and after the merger. This analysis has not been fully completed at this time. A preliminary evaluation of the tax basis gain associated with the contributed assets appears to be in the range of $11.0 million, however there are several mitigating issues to be investigated.

Therefore, the Company cannot say with certainty that the projected tax losses shown below will be fully realized. The Company has initiated steps to resolve this issue in the near future as further described in Item 4. – Controls and Procedures. At this time, the Company cannot say whether it will be filing as a tax group or maintain a separate filing status. Further, the Company is in the process of working through IRS regulation 382 as it applies to the contribution of assets to the RMX joint venture. The Company expects to have this fully resolved by yearend.

A reconciliation of Royale Energy's provision for income taxes and the amount computed by applying the statutory income tax rates at September 30, 2018 and 2017, respectively, to pretax income is as follows:

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Tax benefit computed at statutory rate of 21% and 34% at September 30, 2018 and 2017, respectively	$ (4,137,296)	$ (283,802)
Increase (decrease) in taxes resulting from:		
State tax / percentage depletion / other		
Other non-deductible expenses	942	357
Change in valuation allowance	4,136,354	283,445
Provision (benefit)	$ -	$ -

NOTE 5 – CONVERTIBLE PREFERRED STOCK, SERIES B

As part of the merger with Matrix that took place on March 7, 2018 in accordance with that certain Preferred Exchange Agreement, $20,124,000 of Matrix Investments preferred limited partnership interests were converted into 2,012,400 shares of Series B 3.5% Convertible Preferred Stock, par value $10.00. The Series B Preferred Stock pays a cumulative dividend on an annual basis of $0.35 per share out of funds legally available (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Series B 3.5% Preferred Stock and subject to increase as further described below) as declared by the Board of Directors. These dividends are cumulative from the date of issuance, whether or not such dividends are declared, and are payable quarterly, when and as declared by the Board of Directors. At the election of the Board of Directors, the dividends on the Series B Preferred Stock may be paid in additional shares of Series B 3.5% Preferred Stock. For the period from March 7, 2018 through March 31, 2018, the Board of Directors has elected to pay the Series B Preferred Stock in 5,789 additional shares. As of September 30, 2018, these shares have not yet been issued.

At June 30, 2018, the Company's consolidated balance sheet reflected an accrued dividend payable of $233,494. On June 28, 2018, the Board authorized a dividend payable in additional shares of Series B Preferred Stock "PIC" of $57,891 for the accrued dividends due on the Series B Preferred Stock. This amount represented 30 days of interest on the Series B as of March 31, 2018. As the Board did not declare a dividend for the quarter ended June 30, 2018, we made a revision to our calculation of dividends payable from $233,494 to $57,891, a $175,603 decrease in dividends payable. Also, as a preferred stock dividend, the amount should have been included in the shareholder's equity section instead of being classified as a current liability. As of September 30, 2018, the Board has not authorized any further payments to the Series B Preferred Shareholders either in cash or in additional shares of preferred stock. Therefore, at September 30, 2018, the Company's consolidated balance sheet is reflecting an accrued preferred stock dividend payable of $57,891. Total accumulated and undeclared dividends on the Series B Preferred Stock is $353,135 at September 30, 2018.

NOTE 6 – SUBSEQUENT EVENTS

On October 3, 2018, the Company issued a promissory note for a principal amount of $517,585 to Forza Operating, LCC. at an interest rate of 5.5%. Beginning October 3, 2018, principal and interest is due and payable in 12 monthly installments of $44,428. The note was the result of an agreement regarding the plugging and abandonment of the CL&F #1 and the CL&F #1 SWD wells. The Company agreed to include the current joint interest billing balance due to Forza Operating of $233,367 and Royale's share of future plugging and abandonment costs of $284,218.

On October 10, 2018, the Company entered into an Incentive Stock Option Award Agreement with Stephen M. Hosmer, Chief Financial Officer. Mr. Hosmer was granted 250,000 options to purchase common stock at an exercise price of $0.31 per share. These options were granted for a period of 10 years and will expire after October 10, 2028. These options become vested exercisable immediately.

On October 17,2018, the Company entered into entered into a Participation Agreement with California Resources Petroleum Corporation ("CRPC") to conduct a three year development program on CRPC's properties in the Rio Vista Field in the Sacramento Basin of northern California. Under the Participation Agreement, Royale will earn interests in individual wellbores and income from wells it drills on the subject properties over the three year period through December 1, 2021.

On October 16, 2018, the Company entered into an agreement with RMX which, among other things, provided that RMX would fund and consummate the purchase of the West Coast Energy properties. In exchange Royale would receive the Texas assets and the right to purchase 50% of the California assets prior the December 31, 2018.

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.

Merger with Matrix Oil Management Corporation

Effective March 7, 2018, Royale Energy merged with REF and Matrix as described *in Note 1 to the Unaudited Financial Statements – Merger with Matrix Oil Management Corporation, and our Current Report on Form 8-K filed with the SEC on March 12, 2018, as amended on May 17, 2018.*

Contribution Agreement with RMX Resources, LLC

In April 2018, Royale Energy consummated a Subscription and Contribution Agreement with RMX Resources, LLC, and CIC RMX LP, as described in *Note 1 to the Unaudited Financial Statement, and our Current Reports on Form 8-K filed with the SEC on April 4, 2018, and April 13, 2018.*

Going Concern

At September 30, 2018, the Company has an accumulated deficit of $67,964,987, a working capital deficiency of $3,329,894 and a stockholders' equity of $4,815,921. As a result, our financial statements include a "going concern qualification" reflecting substantial doubt as to our ability to continue as a going concern. We have merged with Matrix to increase efficiency and reduce costs to both companies, thereby allowing a return to positive cash flow. We have also entered into a joint venture with RMX which provided additional liquidity as further described in *Note 1*. We are exploring commitments to provide additional financing, but there is no guarantee that we will be able to secure additional financing on acceptable terms, or at all, if needed to fully fund our 2018 drilling budget and to support future operations.

Results of Operations

The merger between Royale Energy and Matrix Oil Management was completed during the first quarter of 2018. For the period in 2018, the consolidated amounts represented here are for the nine month period for Royale Energy, Inc. and the seven month period for Matrix Oil Management and its subsidiaries.

For the nine months ended September 30, 2018, we had a net loss of $19,701,406 compared to the net loss of $834,713 during the first nine months of 2017. For the third quarter of 2018, we had a net income of $1,072,910 and a $1,433,836 profit from operations, mainly due to the drilling of three wells during the period, compared to net income of $82,269 in the third quarter of 2017. For the nine month period in 2018, we had a loss from operations of $769,812, the major components of the remaining $18,931,594 net loss during the period were:

Gain on Settlement of Accounts Payable	$	163,681
Loss on Sale of Assets		(16,353,600)
Loss on Investment in Joint Venture		(1,026,404)
Loss on Issuance of Warrants		(1,439,990)
Total Other Loss	$	(18,656,313)

The majority of the loss on sale of assets of $16,353,600 was recorded upon the transfer of oil and gas properties to RMX and surface rights in exchange for cash and a 20 percent working interest in RMX under the Contribution Agreement, along with a subsequent purchase price adjustment. Under the Contribution Agreement, we also issued warrants to acquire 4,000,000 shares of Royale common stock and recorded a loss of $1,439,990. The loss on investment in joint venture of $1,026,404 represents Royale's share of RMX's net loss from operations through the third quarter of 2018. *See Note 1 – Formation of RMX and Asset Contribution.*

Total revenues for the first nine months of 2018 were $2,391,224, an increase of $1,533,213 or 178.7% from the total revenues of $858,011 during the same period in 2017.

During the first nine months of 2018, revenues from oil and gas production increased $788,474 or 165.1% to $1,265,958 from the 2017 same period revenues of $477,484. This increase was due to higher production volumes associated with the merger. The net sales volume of oil for the nine months ended September 30, 2018, was approximately 15,358 barrels with an average price of $65.28 per barrel, versus 94 barrels with an average price of $45.70 per barrel for the same period in 2017. This represents an increase in net sales volume of 15,264 barrels. The net sales volume of natural gas for the nine months ended September 30, 2018, was approximately 95,970 Mcf with an average price of $2.54 per Mcf, versus 161,940 Mcf with an average price of $2.92 per Mcf for the same period in 2017. This represents a decrease in net sales volume of 65,970 Mcf or 40.7%. The decrease in natural gas production volume was due to several of our operated wells being offline during the period in 2018 due to new pipeline equipment requirements by Pacific Gas & Electric and to the natural declines of our remaining wells. For the quarter ended September 30, 2018, revenues from oil and gas production increased $186,392 or 147.4% to $312,827 from the 2017 third quarter revenues of $126,435. This increase was also due to higher production volumes associated with the merger. The net sales volume of oil for the quarter ended September 30, 2018, was approximately 3,143 barrels with an average price of $67.17 per barrel, versus 5 barrels with an average price of $39.41 per barrel for the third quarter of 2017. This represents an increase in net sales volume of 3,138 barrels for the quarter in 2018. The net sales volume of natural gas for the quarter ended September 30, 2018, was approximately 33,585 Mcf with an average price of $2.78 per Mcf, versus 44,465 Mcf with an average price of $2.84 per Mcf for the third quarter of 2017. This represents a decrease in net sales volume of 10,880 Mcf or 24.5% for the quarter in 2018.

Oil and natural gas lease operating expenses increased by $847,818 or 237.0%, to $1,205,577 for the nine months ended September 30, 2018, from $357,759 for the same period in 2017. For the third quarter in 2018, lease operating expenses increased $311,453 or 244.7% from the same quarter in 2017. These were both higher due to the increase in the number of wells operated by the Company during the period in 2018, related to the merger.

The aggregate of supervisory fees and other income was $1,125,266 for nine months ended September 30, 2018, an increase of $744,739 or 195.7% from $380,527 during the same period in 2017. During the third quarter 2018, supervisory fees and other income increased $349,196 or 165.0% when compared to the quarter in 2017. These increases were mainly due to the receipt of service agreement fees through an arrangement with RMX Resources, LLC.

Depreciation, depletion and amortization expense increased to $344,532 from $133,061, an increase of $211,471 or 158.9% for the nine months ended September 30, 2018, as compared to the same period in 2017. During the third quarter 2018, depreciation, depletion and amortization expenses increased $25,829 or 60.4%. The depletion rate is calculated using production as a percentage of reserves. This increase in depreciation expense was due to the increase in the number of wells and related equipment operated by the Company as a result of the merger consolidation.

General and administrative expenses increased by $770,935 or 52.4% from $1,471,956 for the nine months ended September 30, 2017, to $2,242,891 for the same period in 2018. For the third quarter 2018, general and administrative expenses increased $318,333 or 69.7% when compared to the same period in 2017. These increases were primarily due mainly to merger related increases in employee costs and outside consulting. Marketing expense for the nine months ended September 30, 2018, increased $63,625, or 28.8%, to $284,809, compared to $221,184 for the same period in 2017. For the third quarter 2018, marketing expenses increased $102,164 or 173.3% when compared to the same quarter in 2017. Marketing expense varies from period to period according to the number of marketing events attended by personnel and their associated costs.

Legal and accounting expense increased to $1,267,896 for the nine month period in 2018, compared to $895,316 for the same period in 2017, a $372,580 or 41.6% increase. This increase was primarily due to legal and accounting fees related to the Matrix merger. For the third quarter 2018, legal and accounting expenses decreased $36,439 or 16.1%, when compared to the third quarter in 2017, mainly due to lower legal and accounting fees related to the Matrix merger, which concluded during the first quarter.

During the nine months ended September 30, 2018, we recorded a loss on investment in joint venture of $1,026,404 as our 20% share of RMX Resources, LLC's period loss of $5,132,019, *see discussion in Note 1*. During the nine months ended September 30, 2018, we recorded a $105,130 loss on derivative instruments, reflecting the period end market-to market changes in the fair value positions, related to Matrix operations prior to the conclusion of the merger. During the nine months ended September 30, 2018 and 2017, we recorded gains of $163,681 and $73,128, respectively, on the settlement of accounts payable. We periodically review our proved properties for impairment on a field-by-field basis and charge impairments of value to the expense. During the first nine months of 2017, we recorded a lease impairment of $147,558 on various lease and land costs that were no longer viable. There were no lease impairments recorded during the period in 2018. During the nine months ended September 30, 2018 and 2017, we recorded write downs of $9,790 and $6,000, respectively on certain well equipment that was no longer useable.

At September 30, 2018, Royale Energy had a Deferred Drilling Obligation of $5,406,678. During the first nine months of 2018, we disposed of $4,797,720 of drilling obligations upon completing the drilling of three natural gas wells in Northern California, while incurring expenses of $2,603,261, resulting in a gain of $2,194,459. At September 30, 2017, Royale Energy had a Deferred Drilling Obligation of $5,476,379. During the first nine months of 2017, we disposed of $4,567,622 of drilling obligations upon completing the drilling of two wells and participating in the drilling of an additional well, while incurring expenses of $2,981,300, resulting in a gain of $1,586,322.

Interest expense increased to $170,151 for the nine months ended September 30, 2018, from $119,340 for the same period in 2017, a $50,811 increase. This increase resulted from interest accrued on the term loan agreement originated by Matrix. Further details concerning this agreement can be found in *Capital Resources and Liquidity*, below.

Capital Resources and Liquidity

At September 30, 2018, Royale Energy had current assets totaling $10,076,676 and current liabilities totaling $13,406,570 a $3,329,894 working capital deficit. We had cash at September 30, 2018, of $5,745,709 compared to $3,338,693 at December 31, 2017.

Ordinarily, we fund our operations and cash needs from our available credit and cash flows generated from operations. We believe that consummation of the Merger will enable the combined companies to meet their liquidity demands. However, because the Merger results in different liquidity needs than Royale had before the Merger, there is doubt as to the ability to meet liquidity demands through cash flow or ongoing operations. In that event, the Company will seek alternative capital sources through additional sales of equity or debt securities, or the sale of property.

At September 30, 2018, our other receivables, which consist of joint interest billing receivables from direct working interest investors and industry partners, totaled $3,235,592, compared to $764,015 at December 31, 2017, a $2,471,577 increase. This increase was mainly due to receivables from Matrix industry partners for drilling and well operations. At September 30, 2018, revenue receivable was $193,051, an increase of $87,044, compared to $106,007 at December 31, 2017, due to higher oil and gas production volumes on Matrix operated wells. At September 30, 2018, our accounts payable and accrued expenses totaled $6,323,027, an increase of $1,684,148 from the accounts payable at December 31, 2017 of $4,638,879, mainly related to drilling of the three wells during third quarter in 2018 and operations related trade accounts payable.

In July 2016, we received a cash investment of $1,580,000 from two investors to purchase convertible promissory notes with principal amounts of $1,280,000 and $300,000, with a conversion price of $0.40 per share, with warrants to purchase one share of common stock for every three shares of common stock issuable upon conversion of the notes. The notes originally matured on August 2, 2017, one year from the date of issuance, and carried a 10% interest rate, with a default rate of 25%. Shortly before completion of the Merger, the $300,000 note and accrued interest of $47,500 was converted into 750,000 shares of Royale common stock valued at $347,500, and Royale agreed to a cash settlement with the holder of the $1,280,000 note for $1,900,000, which was paid on April 13, 2018.

In conjunction with the Purchase and Sale Agreement on June 15, 2016, Matrix Oil Management Corp entered into a term loan agreement with Arena Limited SPV, LLC (Term Loan) for approximately $12.4 million. The uses of the term loan were used for the approximately 50% working interest purchase of the oil and gas properties noted above in the Purchase and Sale Agreement, the payoff of the existing Credit Facility, payment of legal and other loan costs, and other working capital needs of the Company as defined in the loan agreement. The original maturity date of the Term Loan was June 15, 2018, it was secured by the assets of Matrix, and contained financial covenants commencing June 30, 2016 and thereafter, as defined in the term loan agreement. The Term Loan contained preferential payment requirements in advance of the amounts outstanding under the subordinated notes payable to partners, as defined in the term loan agreement. The Term Loan Agreement called for interest at the rate of nine percent (9%) plus the adjusted LIBOR Rate computed on a daily basis. The loan balance as of March 31, 2018 was $11,140,749. The Company recognized $164,401 in interest expense for the period ended March 31, 2018. In April 2018 pursuant to the Contribution Agreement, this loan agreement was paid in full.

Operating Activities. Net cash used by operating activities totaled $1,451,832 and $2,029,638 for the nine month periods ended September 30, 2018 and 2017, respectively. This $577,806 or 28.5% decrease in cash used was mainly due to increases in accounts payable and accrued expenses related mainly to drilling of three wells during the third quarter in 2018, the merger with Matrix and sale of oil and gas assets in the formation of RMX Resources, previously discussed in *Note 1*.

Investing Activities. Net cash provided by investing activities totaled $6,033,768 the nine month period ended September 30, 2018. Net cash used by investing activities totaled $753,124 for the nine month period ended September 30, 2017. The $6,786,892 difference in cash during the period in 2018 was mainly due to approximately $4.3 million received in the merger and for the oil and gas asset sale and contribution in the formation of RMX Resources, LLC as previously discussed in *Note 1*. During the period on 2018, we also received $4,312,500 in direct working interest investor turnkey drilling investments, while during the same period in 2017 we received $2,150,000. Additionally, our turnkey drilling expenditures were higher in 2017, where we drilled and completed two natural gas wells and participated in the drilling of an additional oil well, while in 2018 we drilled three natural gas wells and completed one, due to formation difficulties in one well and the other well was dry.

Financing Activities. Net cash used by financing activities totaled $2,174,920 in the first nine months of 2018, mainly due to the $1.9 million settlement payment for the cash advances on pending transactions. During the nine month period ended September 30, 2018, we also paid $274,920 for principal and fee payments on the Matrix originated term loan agreement. No net cash was provided or used in financing activities during the same period in 2017.

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 $2.62 per Mcf to a high of $3.27 per Mcf for the first nine months of 2018.

Item 4. Controls and Procedures

As of September 30, 2018, 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management identified an internal control deficiency that represents a material weakness in or internal control over financial reporting as of December 31, 2017, in that, certain legal documents, such as debt and equity financing transactions, during the fiscal year were not supported by fully executed agreements.

The control deficiency that gave rise to the material weakness did not result in a material misstatement of our financial statements for the fiscal year ended December 31, 2017.

Because of the material weakness described above, our management was unable to conclude that our internal control over financial reporting was effective as of the end of period to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Management is seeking written acknowledgement of the note transactions from the note holders in order to remediate the material weakness described above and will require written acknowledgement from counterparties of all similar future transactions.

Management has also identified a material weakness that existed as of September 30, 2018, in that we did not have appropriate policies and procedures in place to properly evaluate the accuracy of certain of our financial accounts related to the determination of the tax basis of acquired assets associated with the merger of the Company with Matrix as further described in the financial Note 1 – Merger with Matrix Oil Management Corporation. There have been no changes in our internal control over financial reporting that occurred during the nine month period ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remedial Action

We have begun our remediation plan with respect to improving and implementing our control over financial reporting and more specifically associated with determining the tax basis of the properties acquired in the merger with Matrix Oil Management Corporation. We have engaged outside consulting firms and tax counsel to assist us in the determination of the tax basis of these properties, application of IRS regulation 382, determination of whether or not to file as a tax group or maintain separate filing status and the ultimate calculation of the proper tax accounting for the contribution of assets to the RMX joint venture. Additionally, we are in the process of implementing a more robust review and increasing the supervision and monitoring of the financial reporting processes related to our material weakness in the calculation and reporting of tax carryforward balances, deferred taxes and tax basis of reported assets.

Except for the actions described above that were taken to address the material weaknesses, there were no changes in our internal controls during the nine months ended September 30, 2018, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Not applicable to smaller reporting companies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the period covered by this report, we have not issued any unregistered shares.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

2.1	Amended and Restated Agreement and Plan of Merger among the Company, REF. Royale Merger Sub, Inc., Matrix Merger Sub, Inc., and Matrix Oil Management Corporation, filed as Exhibit 2.1, Annex A to the Company's Form S-4/A, filed July 21, 2017
2.2	Amendment No. 7 to the Amended and Restated Agreement and Plan of Merger among the Company, REF, Royale Merger Sub, Inc., Matrix Merger Sub, Inc., and Matrix Oil Management Corporation, filed as Exhibit 2.2 to the Company's Form 8-A filed March 8, 2018
2.3	Joint Waiver of Closing Conditions between Matrix Oil Management Corporation, on behalf of itself and as general partner of Matrix Investments, L.P., Matrix Permian Investments, LP, , Matrix Las Cienegas Limited Partnership, Matrix Oil Corporation, and all of the holders of preferred limited partnership interests of Matrix Investments (February 28, 2018), filed as Exhibit 2.6 to the Company's Form 8-A, filed March 8, 2018
2.4	Subscription and Contribution Agreement by and among RMX, CIC, Royale, REF and Matrix (April 4, 2018), filed as Exhibit 2.1 to the Company's Form 8-K filed April 10, 2018
3.1	Amendment to the Company's Certificate of Incorporation of Royale Energy Holdings, Inc., filed with the Delaware Secretary of State, March 2, 2018, filed as Exhibit 3.2 to the Company's Form 8-K filed March 12, 2018
4.1	Royale Energy Holdings, Inc., Certificate of Designation of Series B 3.5% Redeemable Convertible Preferred Stock, filed with the Delaware Secretary of State on February 27, 2018, filed as Exhibit 2.5 to the Company's Form 8-A, filed March 8, 2018

10.1	Agreement and Plan of Exchange between Royale Energy, Inc., Royale Energy Holdings, Inc., and the partners of Matrix Investments, LP (February 28, 2018), filed as Exhibit 10.1 to the Company's Form 8-K filed March 12, 2018
10.2	Agreement and Plan of Exchange between Royale Energy, Inc., Royale Energy Holdings, Inc., and the partners of Matrix Las Cienegas Limited Partnership (February 28, 2018), filed as Exhibit 10.2 to the Company's Form 8-K filed March 12, 2018
10.3	Agreement and Plan of Exchange between Royale Energy, Inc., Royale Energy Holdings, Inc., and the partners of Matrix Permian Investments, LP (February 28, 2018), filed as Exhibit 10.3 to the Company's Form 8-K filed March 12, 2018
10.4	Agreement and Plan of Exchange between Royale Energy, Inc., Royale Energy Holdings, Inc., Matrix Oil Corporation and the shareholders of Matrix Oil Corporation (February 28, 2018), filed as Exhibit 10.4 to the Company's Form 8-K filed March 12, 2018
10.5	Preferred Exchange Agreement between Royale Energy, Inc., Royale Energy Holdings, Inc., and the holders of the preferred limited partnership interests of Matrix Investments, LP (February 28, 2018), filed as Exhibit 10.5 to the Company's Form 8-K filed March 12, 2018
10.6	Consent To Merger, Joinder, Waiver And Fourth Amendment To Term Loan Agreement between Matrix Oil Corporation, Matrix Pipeline LP, Matrix Oil Management Corporation, Matrix Las Cienegas Limited Partnership, Matrix Investments, L.P., Matrix Permian Investments, LP, Matrix Royalty, LP, Royale Energy Holdings, Inc., Royale Energy, Inc., Arena Limited SPV, LLC, Arena Limited SPV, LLC, , and Cargill Incorporated (February 28, 2018), filed as Exhibit 10.6 to the Company's Form 8-K filed March 12, 2018
10.7	Pledge Agreement by Royale Energy, Inc., in favor of Arena Limited SPV, LLC (February 28, 2018) filed as Exhibit 10.7 to the Company's Form 8-K filed March 12, 2018
10.8	Settlement Agreement and Release between Joseph Henry Paquette TR FBO OVE, Inc Profit Sharing Plan FBO Joseph Paquette and Royale Energy, Inc. (February 28, 2018), filed as Exhibit 10.8 to the Company's Form 8-K filed March 12, 2018
10.9	Company Agreement of RMX (April 4, 2018), filed as Exhibit 10.1 to the Company's Form 8-K filed April 10, 2018
10.10	Assignment and Assumption Agreement by and between Sunny Frog Oil, LLC, RMX, Royale, and SFO Production Payment LLC (April 4, 0218), filed as Exhibit 10.2 to the Company's Form 8-K filed April 10, 2018
10.11	Conveyance of Term Overriding Royalty Interest between Sunny Frog Oil, LLC, and Royale (April 4, 2018) , filed as Exhibit 10.3 to the Company's Form 8-K filed April 10, 2018
10.12	Executive Employment Agreement between Jonathan Gregory and Royale (April 4, 2018) , filed as Exhibit 10.4 to the Company's Form 8-K filed April 10, 2018
10.14	Form of Management Services Agreement between Royale and RMX to be entered upon Second Closing of Contribution Agreement, filed as Exhibit 10.5 to the Company's Form 8-K filed April 10, 2018
10.15	Purchase and Sale Agreement between Sunny Frog Oil, LCC, and REF (November 27, 2017) , filed as Exhibit 10.6 to the Company's Form 8-K filed April 10, 2018
10.16	Letter Agreement by and among RMX, CIC< Royale, REF and Matrix (April 12, 2018), filed as Exhibit 2.1 to the Company's Form 8-K filed April 17, 2018
10.17	Executive Employment Agreement between the Rod Eson and the Company, filed as Exhibit 5.1 to the Company's Form 8-K filed July 6, 2018
10.18	Royale Energy, Inc., 2018 Equity Incentive Plan, filed as Exhibit 99.1 to the Company's Form S-8 filed October 29, 2018

10.19	Executive Employment Agreement between the Company and Johnny Jordan, filed as Exhibit 10.2 to the Company's Form S-8 filed October 29, 2018
10.20	Employment Agreement between the Company and Thomas M. Gladney, filed as Exhibit 10.3 to the Company's Form S-8 filed October 29, 2018
10.21	Employment Agreement between the Company and Jonathan Gregory, filed as Exhibit 10.4 to the Company's Form S-8 filed October 29, 2018
10.22	Employment Agreement between the Company and Harry E. Hosmer, filed as Exhibit 10.5 to the Company's Form S-8 filed October 29, 2018
10.23	Employment Agreement between the Company and Barry Lasker, filed as Exhibit 10.6 to the Company's Form S-8 filed October 29, 2018
10.24	Employment Agreement between the Company and Mel. G. Riggs, filed as Exhibit 10.7 to the Company's Form S-8 filed October 29, 2018
10.25	Employment Agreement between the Company and Robert Vogel, filed as Exhibit 10.8 to the Company's Form S-8 filed October 29, 2018
10.26	Employment Agreement between the Company and Michael McCaskey, filed as Exhibit 10.9 to the Company's Form S-8 filed October 29, 2018
10.27	Employment Agreement between the Company and Jeffrey Kerns, filed as Exhibit 10.10 to the Company's Form S-8 filed October 29, 2018
10.28	Incentive Stock Option Agreement between the Company and Stephen M. Hosmer, filed as Exhibit 10.11 to the Company's Form S-8 filed October 29, 2018
10.29	Participation Agreement between the Company and California Resources Petroleum Corporation October 17, 2018), filed herewith. Portions of this Exhibit have been omitted pursuant to a request for confidential treatment filed with the Secretary of the Commission.
10.30	Purchase and Sale Agreement between Royale Energy, Inc., and West Coast Energy Properties Limited Partnership, filed as Exhibit 10.1 to the Company's Report on Form 8-K filed with the SEC September 20, 2018
10.31	Letter Agreement between the Company and RMX Resources, LLC, regarding acquisition of property pursuant to the Purchase and Sale Agreement between Royale Energy, Inc., and West Coast Energy Properties
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
31.3	Rule 13a-14(a)/15d-14(a) Certification
32.1	18 U.S.C. § 1350 Certification
32.2	18 U.S.C. § 1350 Certification
32.3	18 U.S.C. § 1350 Certification
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: November 19, 2018

/s/ Rod Eson
Rod Eson, Chief Executive Officer

Date: November 19, 2018

/s/ Johnny Jordan
Johnny Jordan, President and Chief Operating Officer

Date: November 19, 2018

/s/ Stephen M. Hosmer
Stephen M. Hosmer, Chief Financial Officer

CONFIDENTIAL TREATMENT REQUESTED. ROYALE ENERGY, INC., HAS REQUESTED CONFIDENTIAL TREATMENT OF CERTAIN INFORMATION IN THIS AGREEMENT. THE INFORMATION WHICH HAS BEEN OMITTED HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO 17 C.F. R. § 240.24B-2. THE INFORMATION WHICH HAS BEEN OMITTED WAS CONTAINED IN THE FOLLOWING SECTIONS OF THIS AGREEMENT: RECITAL A, RECITAL B, §§ 4.A, 4.B, 4.C, 4.G, 4.H, 4.I, 6.D, AND 10.

PARTICIPATION AGREEMENT

This Participation Agreement (this "Agreement") is entered into this 10 day of October, 2018 ("Effective Date"), by and between CALIFORNIA RESOURCES PETROLEUM CORPORATION and its affiliates, a corporation organized and existing under the laws of the State of Delaware with its offices at 11109 River Run Boulevard, Bakersfield, California 93311 ("CRPC"), and ROYALE ENERGY, INC., a corporation organized and existing under the laws of the State of Delaware with its offices at 1870 Cordell Court, Suite 210, El Cajon, CA 92020 ("Royale"), both of which may hereinafter be referred to individually as a "Party" or collectively as the "Parties".

RECITALS

A. CRPC and Royale are parties to that certain Participation Agreement ("Twitchell PA") dated as of June 15, 2016 relating to certain oil and gas leases and fee lands located within ‖**Redacted - Confidential Treatment Requested**‖[1] ("Twitchell PA Lands"). Pursuant to the terms of the Twitchell PA, Royale has earned certain interests to be assigned by CRPC to Royale in certain wellbores located on and producing from the Twitchell PA Lands, which wellbores are described on Exhibit A attached hereto (the "Twitchell Earned Interests"). The Twitchell Earned Interests are presently being operated pursuant to the terms of the Twitchell PA and that certain Operating Agreement ("Twitchell JOA") dated June 15, 2016, executed by CRPC and Royale in connection with the Twitchell PA.

B. CRPC and Royale desire now to enter into this Agreement, which pertains to portions of the land located within the Rio Vista Field in Sacramento, Solano, and Contra Costa Counties, California, within ‖**Redacted - Confidential Treatment Requested**‖.*

C. CRPC is the owner of certain interests in oil and gas leases and fee acreage within the Farmout Lands (the "Mineral Interests"). Portions of the Mineral Interests, together with other interests and lands, are subject to the Rio Vista Gas Unit (the "Unit"). The Mineral Interests and the Unit, as it may be amended from time to time, are more particularly described in Exhibit C attached hereto.

D. Royale desires to earn interests in individual wellbores and the income derived from the production of hydrocarbons therefrom by drilling and producing new wells on the

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Mineral Interests within the Farmout Lands in accordance with the terms and conditions of this Agreement. Moreover, CRPC and Royale desire that the Twitchell PA Lands, other than the Twitchell Earned Interests, be included within the Farmout Lands and be subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Twitchell PA and Twitchell PA Lands. CRPC and Royale acknowledge and agree that as of the Effective Date the Twitchell PA Lands, other than the Twitchell Earned Interests, shall be and are hereby included as part of the Mineral Interests within the Farmout Lands, and shall be subject to the terms and conditions of this Agreement. CRPC and Royale further acknowledge and agree that as of the Effective Date the Twitchell PA shall be and is hereby terminated with respect to the Twitchell PA Lands other than the Twitchell Earned Interests. The Twitchell PA and the Twitchell JOA shall continue in effect, as applicable, in accordance with their terms only with respect to the Twitchell Earned Interests. CRPC and Royale shall execute, acknowledge, deliver, and record such instruments, and shall undertake such other actions, as may be reasonably necessary to carry out the intent of this Section 1.

2. Farmout Lands and Excluded PUDs. Notwithstanding anything in this Agreement to the contrary, CRPC and Royale acknowledge and agree that for the purposes of this Agreement the term "Farmout Lands" shall not include those certain depths and formations described on Exhibit I) attached hereto ("Excluded PUDs"), which are identified by CRPC as proved undeveloped depths and formations. The terms and conditions of this Agreement shall not apply to, and Royale shall have no right to earn any interest under this Agreement in or, with respect to, any of the Excluded PUDs.

3. Technical Data.

a. Within thirty (30) days of the Effective Date, CRPC shall, to the extent that CRPC has the right to do so, deliver to Royale copies of, or otherwise provide Royale reasonable access to, all geological, geophysical, and seismic digital data, together with relevant land records, (collectively, "Technical Data") relating to the Farmout Lands or Mineral Interests to the extent within the Unit. Royale shall maintain all Technical Data provided to it under this Agreement in accordance with Section 13.b hereof. Upon termination of this Agreement, Royale shall promptly return to CRPC or otherwise destroy to CRPC's satisfaction all Technical Data provided by CRPC to Royale hereunder.

b. During the one hundred twenty (120) day period following the Effective Date, Royale shall undertake at its sole cost and expense all commercially reasonable efforts to obtain a "partner" license from Seismic Exchange, Inc. to use the existing 3D seismic data owned by Seismic Exchange, Inc. covering the Farmout Lands within the Unit. Royale shall maintain all such data in accordance with the terms and conditions of such license, as well as Section 13.b hereof. If Royale is not able to obtain a commercially reasonable partner license from Seismic Exchange, then Royale and CRPC shall undertake commercially reasonable efforts to mutually agree on an alternative data 3D interpretation program using digital well data and

historic seismic data; provided, however, the failure of Royale and CRPC to reach agreement as to any such alternative data 3D interpretation program shall not release Royale from or otherwise reduce any of Royale's obligations under this Agreement.

c. Royale shall, to the extent that Royale has the right to do so, provide CRPC copies of, or otherwise provide CRPC reasonable access to, all Technical Data relating to the Mineral Interests or Farmout Lands provided to or acquired by Royale during the term hereof. CRPC shall maintain all such Technical Data provided by Royale in accordance with Section 13.b hereof.

4. Drilling Program. Royale and CRPC hereby agree to the joint development of the Mineral Interests within the Farmout Lands pursuant to the terms and conditions of this Agreement and the JOA (as defined in Section 9, below). Subject to the terms and provisions of this Agreement, the Year 1 Wells, Year 2 Wells, and Year 3 Wells (defined below), as the case may be, and Well Costs (defined below) provided for in Sections 4.a, 4.b, and 4.c below represent the minimum amount of wells and Well Costs and the Parties shall have the right to drill additional wells over and above said minimum amounts.

a. During the period from and after the Effective Date to December 1, 2019 ("Year 1"), Royale shall complete one of the following (together, the "Year 1 Obligations"): (i) drill and complete (either as commercial producers or as non-productive dry holes) **‖Redacted - Confidential Treatment Requested‖**[2] separate wells on the Mineral Interests within the Farmout Lands ("Year 1 Wells"), or (ii) spend Nine Million Dollars ($9,000,000.00) as its share of Year 1 Well Costs (defined below). Upon successfully completing an individual Year 1 Well, CRPC shall, within ninety (90) days of the date of the first sale of production from such Year 1 Well, deliver to Royale a wellbore assignment in accordance with Section 7 below, of an undivided sixty percent (60%) of all of CRPC's right, title, and interest in and to the wellbore of such Year 1 Well and income (less royalties) derived from the sale of hydrocarbons therefrom. In the event that Royale completes during Year 1 neither of the Year 1 Obligations, then this Agreement shall automatically terminate and Royale shall have no further rights in and to the Mineral Interests or Farmout Lands, except as to any interests in any Year 1 Wells previously assigned (or earned but not yet assigned) to Royale hereunder. Any such interests in Year 1 Wells assigned to Royale shall be operated in accordance with the terms and conditions of the JOA.

b. **‖Redacted - Confidential Treatment Requested‖***

c. **‖Redacted - Confidential Treatment Requested‖***

d. For the purposes of this Agreement, Year 1 Well Costs, Year 2 Well Costs, and Year 3 Well Costs, as applicable, shall mean all costs and expenses actually incurred and directly related to and arising from the permitting, title opinions and curative requirements, drilling, completing and other related operations up to the point of first sales of production, or plugging and abandonment if the well is a dry hole, from the Year 1 Wells, Year 2 Wells, or Year 3 Wells, as applicable, but shall be exclusive of any costs associated with acquiring,

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licensing, analyzing, or interpreting geophysical, seismic, or other similar data, and shall be exclusive of any overhead (other than overhead costs provided for under the JOA, which shall be included) or any other indirect charges or expenses.

e. For the purposes of this Section 4, with respect to an individual Year 1 Well, Year 2 Well, or Year 3 Well, as the case may be, "successfully completing" means the completing of such well as a well capable of producing oil, gas, or hydrocarbon substances in paying quantities from the Mineral Interests within the Farmout Lands.

f. **‖Redacted - Confidential Treatment Requested‖*** All other wells may be proposed by either party in accordance with the terms and provisions of the JOA. Subject to the foregoing, the location, exploration and development objectives of all wells drilled by Royale pursuant to this Agreement shall be subject to the prior written approval of CRPC, which approval shall not be unreasonably withheld. CRPC shall undertake commercially reasonable efforts to provide (i) reasonably suitable surface locations and/or (ii) the required Mineral Interests on the Farmout Lands for the drilling of the Year 1 Wells, Year 2 Wells, and the Year 3 Wells, as the case may be. In the event CRPC is unable to provide such suitable locations and/or the required Mineral Interests and notifies Royale in writing of the same, then the number of wells (and each well's corresponding total AFE amount) required to be drilled in the applicable year to meet the Year 1 Obligations, Year 2 Obligations, or Year 3 Obligations for the number of wells and the Well Costs, as the case maybe, shall be reduced accordingly. In order to facilitate pre-drilling logistics, such as seeking CRPC's prior written approval for surface access rights and the required Mineral Interests, Royale shall undertake best faith efforts to identify and propose the wells to be drilled, their locations, their exploration and development objectives commencing on or before the 1st of November 2019 and continuing in the year immediately preceding the year in which the wells are to be drilled. In the event that CRPC unreasonably withholds its consent with respect to a proposed well hereunder, its location, exploration and development objective, then after Royale provides written notice thereof to CRPC, the number of wells (and each well's corresponding total APE amount) required to be drilled in the applicable year to meet the Year 1 Obligations, Year 2 Obligations, or Year 3 Obligations for the number of wells and the Well Costs, as the case may be, shall be reduced accordingly.

g. **‖Redacted - Confidential Treatment Requested‖**[3]

h. **‖Redacted - Confidential Treatment Requested‖***

i. **‖Redacted - Confidential Treatment Requested‖***

5. **‖Redacted - Confidential Treatment Requested‖***

6. Failure to Perform.

a. In the event that Royale fails to meet at least one of the Year 1 Obligations during Year 1, or at least one of the Year 2 Obligations during Year 2, or at least one of the Year

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3 Obligations during Year 3, then this Agreement shall automatically terminate (as provided in Section 4 above), except as to any interests in wellbores previously assigned by CRPC to Royale hereunder (or earned but not yet assigned) with respect to the Year 1 Wells, Year 2 Wells, or Year 3 Wells, as the case may be. As of the date of any such termination, Royale shall have no further rights under this Agreement to earn any interest in or to the Mineral Interests in the Farmout Lands.

b. Upon termination of this Agreement, the operation of Year 1 Wells, Year 2 Wells, or Year 3 Wells in which Royale has earned and been assigned an interest hereunder, if any, shall be conducted in accordance with the terms and conditions of the JOA.

c. Upon termination of this Agreement for failure on the part of Royale to timely satisfy at least one of the Year 1 Obligations, at least one of the Year 2 Obligations, or at least one of the Year 3 Obligations, there shall be no liability on the part of Royale for such failure other than (I) the loss of right to acquire wellbore assignments as provided herein, (2) liability for loss or damage occasioned to lands or injury or death as a result of or as a consequence of Royale's operations hereunder, (3) liability for the cost of properly plugging and abandoning any well commenced but not properly plugged and abandoned by Royale, (4) liability for demands, claims, actions or damages arising out of or in connection with a breach of Sections 13.a or 13.b hereof, or (5) liability for the payment to CRC of any liquated damages that may be owing under Section 6.d below.

d. In the event that Royale drills the first ‖**Redacted - Confidential Treatment Requested**‖[4] Well in Year 1, Year 2, or Year 3, as the case may be, and then Royale fails to drill any of the remaining three (3) ‖**Redacted - Confidential Treatment Requested**‖* Wells in any such year, then Royale shall promptly pay to CRPC as liquidated damages the sum of ‖**Redacted - Confidential Treatment Requested**‖.* Payment of such liquidated damages shall be independent of and in addition to any other consequences or remedies under this Agreement that may arise out of such failure to drill wells, including, without limitation, termination of this Agreement. CRPC and Royale acknowledge and agree that the failure on the part of Royale to drill any of the remaining three (3) ‖**Redacted - Confidential Treatment Requested**‖* Wells during the applicable year shall result in damages to CRPC, the precise amount of which are unknown and difficult to calculate, but CRPC and Royale further acknowledge and agree that the liquidated damages provided for herein represent a reasonable estimate of any such damages. There shall be no liquidated damages due under any circumstances where Royale has met its obligation share of the Well Costs in any applicable year.

7. Assignments. The wellbore assignments shall be substantially in the form attached as Exhibit E ("Assignments"), and shall be made with warranty of title against claims arising by, through or under CRPC, but no other warranty shall be made by CRPC. The Parties agree that said Assignments are only intended to transfer to Royale an interest in the individual wellbores described therein to the deepest depth drilled and income from production directly attributed to the Mineral Interests of the respective wellbores, and that said Assignments are not

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intended to convey or transfer any other rights or interests, including without limitation, CRPC's remaining rights or interests in the Mineral Interests, Farmout Lands, or Unit.

8. No Further Development. Royale's rights hereunder to develop and earn interests in the Mineral Interests within the Farmout Lands shall be only as provided in Section 4 of this Agreement. Except for the right to undertake the Year 1 Obligations, Year 2 Obligations, and Year 3 Obligations, as applicable, and to earn interests in the Year 1 Wells, Year 2 Wells, and Year 3 Wells, as applicable, Royale shall have no rights to further develop or earn additional interests in the Mineral Interests within the Farmout Lands, except as provided in the JOA with respect to wells drilled as subsequent operations.

9. Operating Agreement. Prior to the successful completion and connection of each well under this Agreement or proper plugging and abandonment, as the case may be, Royale shall be the operator of record for such well. Upon the successful completion and connection of each well, CRPC shall be the operator of record for such well, and at such time Royale shall promptly take all necessary action to transfer the operatorship of the well to CRPC in accordance with all applicable laws and regulations. Concurrent with the execution of this Agreement, the Parties shall execute a form of the A.A.P.L. Form 610 - 1989 Operating Agreement with, among other attachments, the 2005 COPAS Accounting Procedure substantially equivalent to the form attached hereto as Exhibit F (the "JOA"), all of which collectively shall govern all operations and wells drilled on the Mineral Interests within the Farmout Lands pursuant to this Agreement. To the extent that there is any conflict between the terms and conditions of this Agreement and the terms and conditions of the JOA, the terms and conditions of this Agreement shall supersede the JOA.

10. Depths & Commingling Limitations; Excluded Wells; Protection of Unit. The Parties acknowledge and agree that Royale may complete and produce from wells drilled pursuant to this Agreement within any of the Mineral Interests' depths or formations lying beneath the Farmout Lands, other than the Excluded PUDs. Royale shall have no rights under this Agreement in or with respect to the Excluded PUDs. **Redacted - Confidential Treatment Requested**[5] The Parties agree and understand that all surface facilities and equipment, including without limitation gathering lines and pipelines, located on the Farmout Lands (whether used in the operations conducted under this Agreement and the JOA or not, but except as to any equipment hereafter brought onto the Farmout Lands pursuant to this Agreement), together with the CRPC wells existing on the Farmout Lands as of the date of execution of this Agreement and listed on Exhibit Cl ("Excluded Wells") are expressly excluded from this Agreement, and shall remain the sole property of CRPC at all times. Furthermore, Royale agrees not to complete and/or produce any wells under this Agreement or the JOA within five hundred feet (500'), of the producing interval, measured horizontally, of any Excluded Well or Excluded PUDs without the prior written consent of CRPC, which consent CRPC may withhold in its sole discretion and for any reason. CRPC agrees not to complete and/or produce any new wells on the Farmout Lands or neighboring lands within five hundred feet (500') of the producing interval, measured horizontally, of any well drilled under this Agreement without the prior written consent of Royale. The Parties also agree and understand that all rights in those

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portions of the Mineral Interests within the Farmout Lands within the Unit assigned to Royale under this Agreement are expressly made subject to the Unit. In exercising its rights under this Agreement and the JOA, Royale shall use reasonable precaution to prevent damage to, or unreasonable interference with, the Unit, the Unitized Formations, the Excluded Wells, the Excluded PUDs, and all surface and subsurface operations conducted on behalf of the Unit.

11. Preferential Right to Purchase. Should Royale desire to sell all or any part of its interests under this Agreement, it shall promptly give written notice to CRPC, with full information concerning a bona fide proposal to sell its interest, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. CRPC shall then have an optional prior right, for a period of thirty (30) days after receipt of the notice, to purchase on the same terms and conditions the interest which Royale proposes to sell. Subject to Section 13.k and 13.m below, there shall be no preferential right to purchase in those cases where Royale wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a wholly-owned subsidiary or parent company or to a wholly-owned subsidiary of a parent company.

12. Term. This Agreement is effective on and as of the Effective Date, and shall continue until December 1, 2021, unless earlier terminated as provided in Sections 4 and 6 above. Upon termination of this Agreement, Royale shall promptly surrender, and provide a quitclaim in recordable form to CRPC, of all right, title and interest in and to the Mineral Interests and Farmout Lands, including any well in which Royale has earned an assignment that has been plugged and abandoned but excepting and reserving Royale's previously earned interest in any well. Thereafter, and from time to time, subject to CRPC's and Royale's obligation to plug and abandon each well, Royale shall promptly surrender and provide to CRPC a quitclaim in recordable form of all right, title and interest in any excepted and reserved well that has been plugged and abandoned. For avoidance doubt, CRPC and Royale acknowledge and agree that CRPC's and Royale's obligation to properly plug and abandon each well drilled pursuant to this Agreement shall survive any surrender or quitclaim by Royale of its interest hereunder.

13. General Provisions.

a. Indemnification. Each Party hereby unconditionally agrees to indemnify and hold harmless the other, and the other's officers, directors, managers, members, partners, agents, attorneys, employees, or other related parties, from and against any and all losses, costs, damages, expenses (including attorneys' fees and expenses), and any and all liabilities arising, resulting, sustained, incurred, or related to or from (i) a Party's breach of this Agreement or its non-fulfillment of any covenant, agreement, or obligation to be hereunder performed, or (ii) any failure of or non-fulfillment by a Party of any of its obligations, whether pursuant to this Agreement or any third-party agreement. While Royale or CRPC is the operator of record for any well drilled hereunder, operations shall be conducted in accordance with the terms and provisions of the JOA.

b. Confidentiality. The Parties agree to keep the terms of this Agreement, any information, data and interpretations in any form (oral, written, electronic or otherwise) resulting from activities under this Agreement, shared with the other Party pursuant to this

Agreement, or acquired by either Party pursuant to this Agreement, including, without limitation, the Technical Data or other environmental, geological, geophysical or reservoir data, compilations, reports, maps, or models (collectively, "Confidential Information") confidential during the term of this Agreement and the JOA and for a period of two (2) years thereafter. Subject to Section 13.c., the Parties shall not distribute or disclose any Confidential Information in any form to third Parties, the press or other media, without the prior written consent of the other Party, which consent may not be unreasonably withheld. Nothing contained herein shall preclude any Party from making such disclosures as may be required by any federal or state law or regulations. The Parties agree that such Confidential Information may be disclosed to employees, representatives, and consultants of such Party who (i) are advised of the confidentiality obligations hereunder and (ii) are bound to keep Confidential Information confidential in accordance with the terms of this Section 13.b. A Party may show Confidential Information to a potential purchaser if such potential purchaser executes a confidentiality agreement and the other Party consents in writing to such disclosure and also consents to the form and substance of any such confidentiality agreement. Each Party shall indemnify, defend, and hold the other Party harmless from and against all claims, costs, expenses (including, without limitation, reasonable attorneys' fees and costs), damages, and liabilities arising out of or in any way connected with a breach by that Party of this confidentiality provision, or by an unauthorized disclosure by any third party to whom such Party disclosed the Confidential Information. The Parties further agree that Confidential Information shall not apply to any Technical Data or other data that is in the public domain including, but not limited to, any State of California, Department of Conservation, Division of Oil, Gas and Geothermal Resources ("DOGGR") data.

c. Media/News Releases. No Party hereto shall, at any time, issue to the press or other media any news release, or distribute any information or photographs, concerning this Agreement, without the prior approval of the other Party hereto, which approval shall not be unreasonably withheld, except as required by law or regulation (i.e., S.E.C.). When the Party has reviewed such material and the Party has approved the issuance of the material, the Party desiring such release shall have the principal responsibility for its issuance. The only other exception to the foregoing shall be that in the event of an emergency involving extensive property damage, operations failure, loss of human life or other clear emergency, the Party designated as Operator hereunder, is authorized to furnish such minimum, strictly factual information as shall be necessary to satisfy the requirements of duly constituted governmental authorities if time does not permit the obtaining of prior approval by the other Party. Said Operator shall thereupon promptly advise the other Party of the information so furnished.

d. Severability and Non-Waiver. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under any applicable law effective during the term of that provision, such provision is fully severable, and this Agreement is to be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part hereof, and the remaining provisions of this Agreement shall remain in full force and effect. Furthermore, in lieu of such illegal, invalid, or unenforceable provision, there is to be added automatically as a part of this Agreement a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible and be legal, valid, and enforceable in accordance with all applicable laws of the State of California. No delay or omission by a Party in exercising any right under this Agreement shall operate as a waiver of that or any other right. A written waiver

or written consent given by a Party on any one occasion is effective only on that occasion, and shall not be construed as a waiver of that right or consent as to any other occasion or any other breach.

e. Mutual Representations and Warranties. Each Party represents and warrants to the other that:

i. such Party is a corporation duly organized, validly existing and in good standing under the laws of the State of its incorporation, and is duly qualified to do business in the State in which the Farmout Lands are located;

ii. such Party has the authority necessary to enter into this Agreement and the JOA; and

iii. this Agreement and the JOA shall constitute legal, valid and binding obligations enforceable against such Party in accordance with their respective terms.

f. Entire Agreement. This Agreement constitutes the entire agreement between the Parties with respect to the subject matter hereof, and cancels and supersedes all prior and contemporaneous understandings and agreements between the Parties, whether expressed or implied, written or oral, with respect to such subject matter. Each Party acknowledges that no representation, statement, understanding, or agreement has been made other than what is expressly set forth herein, and that such Party has not relied on anything done, said, or written by the other Party other than what is expressly set forth herein. This Agreement may be amended only in a writing executed by both Parties expressly stating the Parties' intention to amend this Agreement.

g. Notices. Any and all notices, requests, claims, demands, and other communications hereunder shall be in writing, and shall be given (and shall be deemed to have been duly given) by delivery in person, by facsimile or by electronic mail (in each case with written confirmation of the successful transmission thereof, which shall constitute and evidence delivery), by recognized overnight carrier (such as FedEx or UPS), or by express, registered, or certified mail, return receipt requested, to the Parties at the respective following addresses:

CALIFORNIA RESOURCES PRODUCTION CORPORATION
11109 River Run Boulevard
Bakersfield, California 93311
Attn: Land Department

Royale Energy, Inc.
1870 Cordell Court, Suite
210 El Cajon, CA 92020
Email: rod@royl.com

h. Governing Law; Disputes. This Agreement shall be exclusively construed in accordance with the laws of the State of California without regard to any conflict of laws rules

or principles thereof. Any Party bringing a legal action or proceeding against the other Party for the resolution of any dispute arising in connection with the interpretation, construction, or enforcement of this Agreement shall bring such legal action or proceeding in any court of the State of California sitting in Kern County, California or any federal court having jurisdiction over Kern County, California. Each Party agrees to submit to the exclusive personal jurisdiction and venue of the state and federal courts having jurisdiction over Kern County, California, for the resolution of all disputes arising in connection with the interpretation, construction, and enforcement of this Agreement, and hereby waives the claim or defense therein that such courts constitute an inconvenient forum. Each Party waives, to the fullest extent permitted by law, any objection that it may now or later have to the laying of venue of any legal action or proceeding arising out of or relating to this Agreement brought in any such courts.

i. Further Assurances. From time to time after the Effective Date, the Parties agree to execute, acknowledge, and deliver to the other such further instruments, and take such other action as may be reasonably requested by the other, in order to accomplish more effectively the purposes of the transactions contemplated hereunder.

j. Disclaimer of Partnership. This Agreement is not intended to create, and shall not be construed to create, a partnership, joint venture, or other relationship whereby one Party is liable for the actions or debts of another Party; it being understood and agreed that the rights and liabilities of the Parties to this Agreement are several, and not joint or collective.

k. Assignment. This Agreement shall be binding on and inure to the benefit of the Parties and their respective successors and permitted assigns. The terms and conditions of this Agreement are founded on factors personal and unique to the Parties; therefore, it may not be assigned or conveyed in whole or in part without the prior written consent of the other Party, which consent shall not be unreasonably withheld. Unless expressly stated herein to the contrary, no third Party is intended to have any rights, benefits, or remedies hereunder. The Parties agree this Assignment provision shall not apply where Royale wishes to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a wholly-owned subsidiary or parent company or to a wholly-owned subsidiary of a parent company, or assign all or part of its interest pursuant to **Royale's Direct Working Interest ("DWI") investment programs**.

l. Counterpart Execution. This Agreement may be executed and delivered in counterparts, including delivery by facsimile or electronic transmission, each of which counterpart shall be considered an original for all purposes hereunder, and all of which, taken together, shall constitute execution and delivery of one and the same document.

m. Protection from Liens. During the life of this Agreement, Royale and CRPC shall keep the Mineral Interests, Farmout Lands and Unit free and clear from any lien or any encumbrance (other than those existing as of the Effective Date, and Royale acknowledges in this regard the existence of existing deed of trust liens, among others). Royale and CRPC shall each defend, indemnify and save the other Party harmless from all loss, cost, or expense including attorneys' fees) for its failure to do so.

n. Insurance. While operations are being conducted hereunder by Royale or CRPC on any of the Mineral Interests, Royale or CRPC agrees to acquire and maintain the following insurance:

i. Worker's Compensation and Occupational Disease Insurance in accordance with applicable state and/or federal statute for all jurisdictions where operations are performed under this Agreement.

ii. Employer's Liability with limits of at least $2,000,000.00 per occurrence.

iii. Comprehensive General Liability with a combined single limit (personal injury and property damage) of at least $10,000,000.00 per occurrence.

iv. Automobile Liability covering all owned, non-owned and hired vehicles, with limits of at least $1,000,000.00 per occurrence.

v. Control of well, of at least $10,000,000.00 of limits.

vi. Royale and CRPC further agree to name the other Party and its affiliates as an additional insured under items (iii) and (iv) above and further agree to secure a waiver of subrogation in favor of such other Party and its affiliates under each of the insurance policies noted above.

vii. Upon request Royale and CRPC will furnish the other Party valid certificates of insurance certifying the above coverage.

viii. Royale and CRPC agree that the insurance required by this Agreement shall not be materially changed, reduced, cancelled, or allowed to lapse for any reason, without thirty (30) days' advance written notice to such other Party. Royale's failure to acquire and/or maintain the required insurance coverages with at least the specified limits, or failure to provide any requested certification thereof within thirty (30) days following receipt of a written request from CRPC, or any successor, shall be grounds to withhold or deny any assignment to Royale that is otherwise required under this Agreement and/or terminate this Agreement as to all of the Mineral Interests and Farmout Lands, except as to any interest previously assigned (or earned but not yet assigned) to Royale, at CRPC's election.

ix. The above insurance coverages and limits may be insured through primary or excess layers of insurance. All insurance must be placed with insurance carriers rated A-, VII or higher by A.M. Best or similar rating agency and approved to do business in the State of

California. In the event Royale or CRPC maintains higher limits than the minimums shown above, Royale or CRPC shall be entitled to coverage for such higher limits.

o. Compliance with the Mineral Interests. Royale acknowledges receiving and reviewing any oil and gas leases included within the Mineral Interests and Royale and CRPC hereby agree, notwithstanding anything to the contrary contained herein, to comply with all terms and conditions of the "Lessee" thereunder.

p. Non-Discrimination Requirements. In the performance of this Agreement and the JOA, Royale agrees to comply fully with the non-discrimination provisions of Section 202 of Executive Order 11246. Royale shall also abide by the requirements of Executive Order 11701, Veterans' Employment Provision, which order is incorporated herein by reference.

q. Operations, Plugging and Abandoning. While it is an operator of any well drilled pursuant to this Agreement, Royale and CRPC shall:

i. conduct all operations in a good and workmanlike manner, in compliance with the terms and conditions hereof and all laws, ordinances, statutes, rules, and regulations, orders issued or promulgated by any court, governmental agency, subdivision, or entity having jurisdiction over said operation, production or marketing on and from the Farmout Lands, Mineral Interests and Unit covered hereby;

ii. in the event any well drilled hereunder is completed as non-productive of oil or gas, or as one not capable of producing oil and/or gas in paying quantities, such well shall only be plugged and abandoned in accordance with the JOA;

iii. properly plug and abandon all wells drilled hereunder at the end of said well's economic life (any well which has not been produced paying quantities of oil, gas, and/or other hydrocarbons, been used as an injection well or other type of service well within the immediately preceding two (2) years shall be deemed beyond its economic life and shall be required to plugged and abandoned hereunder unless the continuation of an actual economic return due to the presence of said well bore can be established by clear and convincing evidence);

iv. keep all locations on the Farmout Lands, Mineral Interests and Unit subject to this Agreement free and clear of abandoned or unused pipes, rods, equipment, litter, or oil field trash and no tanks or other vessels, surface piping, or other oil field equipment not then in use by Royale or CRPC, for more than two (2) years beyond the last date of substantial commercial use by Royale or CRPC;

v. upon abandonment of all the wells and disuse of the oil field tanks, vessels, pipelines, power lines, and other equipment on a location for the requisite period, clear, clean, remediate and restore such lands to within reasonably the same condition as the surrounding lands as may be required by this Agreement, the applicable oil and gas lease, and any applicable governmental rules and regulations; and

vi. conduct its operations in a continuous good and workmanlike manner and completed within a commercially reasonable period of time pursuant to the reasonable and prudent operator standard.

r. Well Information Requirements. For any well drilled by Royale or CRPC pursuant to the terms of this Agreement, Royale or CRPC shall promptly notify such other Party in writing of the following items:

i. the exact legal description of the location of such well;

ii. the date actual drilling of such well is commenced;

iii. the total depth drilled;

iv. the date of completion of such well;

v. whether such well was completed as a producer of oil and/or gas or as a dry hole; and

vi. the date any such well is shut-in.

IN WITNESS WHEREOF, the duly authorized representatives of the Parties have caused this Agreement to be executed on the date first written above.

CALIFORNIA RESOURCES PETROLEUM CORPORATION		ROYALE ENERGY, INC.	
By:	*/s/ Carrie Fox*	By:	*/s/ Rod Eson*
Name:	Carrie Fox	Name:	Rod Eson
Title:	Vice President – Business Development	Title:	CEO
Date:	10/16/2018	Date:	10/17/2018

Exhibit 10.31

ROYALE ENERGY, INC.

VIA EMAIL: JGREGORY@RMXRESOURCES.COM

October 16, 2018

RMX Resources, LLC
459 West Road
La Habra Heights, CA 90631
Attention: Jonathan Gregory

RE: Acquisition Notification
& Amendment
Royale & RMX AMI
State of California

Dear Jonathan,
Pursuant to Section 3.3 of the Amended and Restated Limited Liability Company Agreement of RMX Resources (RMX) dated April 4, 2018, this transmittal is provided by Royale Energy, Inc. (Royale) to advise RMX of the Purchase and Sale Agreement (PSA) Royale has entered into for the acquisition of West Coast Energy Properties, LP's (WCEP) assets. The substantive commercial terms of the PSA are as follows:

1. The assets cover the West Whittier and Bellevue Areas in California; the Jameson North and Big Mineral Creek Areas in Texas.
2. The Purchase Price is $12,000,000.
3. The Effective Date is March 1, 2018.
4. The PSA was executed on November 19, 2018.
5. The Closing Date is to take place within 45 days of execution (calculated to be on or before November 5, 2018).
6. Purchaser may extend the Closing Date 30 days by making a $500,000.00 Deposit.

Because the PSA covers lands located in California and Texas and in order to resolve the ambiguities inherent in Section 3.3 as said Section may apply to the PSA, RMX and Royale agree to the following terms as it related to the West Coast acquisition:

A. RMX will fund and close 100% of the WCEP PSA acquisition including the payment of the $500,000 escrow/deposit down payment if necessary, subject to RMX being party to the PSA. Immediately after the execution of this agreement parties to the PSA and RMX will meet to discuss adding RMX to the PSA for express intent of having the California assets in the WCEP transaction assigned directly to RMX and the Texas assets assigned directly to Royale. If such agreement cannot be reached both parties will work toward finding an amicable solution.

B. Royale will assign RMX a 3% of 100% ORRI in the Jameson North assets. The 3% ORRI will be paid on the Barrels of Oil above a base production of 37 Barrels of Oil per day production. Said ORRI will terminate in its entirety, in the event Royale should sell all the Jameson North assets on or before December 5, 2019, as provided for in Section C herein.
C. In the event Royale should agree to sell all the Jameson North and/or Big Mineral Creek assets within 12 months of RMX's closing with GE on WCEP, RMX will be entitled to 50% of the proceeds from such sale.
D. Royale will have the right to acquire up to 50% of the West Whittier and Bellevue California assets on or before December 31, 2018. Such rights will expire on 12/31/2018 if RMX has not received a wire equal to 50% of its purchase price (plus the accrued interest detailed in F below) on the WCEP assets as outlined in the PSA. Such acquisition shall be on the same terms and conditions of the PSA, including but not limited to, those terms set forth below. Following Royale's acquisition of the West Whittier and Bellevue assets, RMX and Royale will discuss the future operations for the West Whittier and Bellevue assets.
E. Royale will reduce the MSA rate by $50,000 per month for providing services as outlined in the MSA if Royale is elected to be named operator of the West Whittier and Bellevue assets.
F. Should Royale exercise its rights to acquire its pro-rata share of the California assets described in the PSA, Royale shall receive all revenue and expense from the March 1, 2018 effective date, irrespective of the date of the exercise. Royale shall pay only such costs and expenses as incurred by the joint account for the operation of the property, and shall not be subject to any due diligence or other expenses incurred by RMX, unless expressly agreed by the parties in writing. Royale shall have acquired the properties at 50% of the post-closing adjusted purchase price as determined per the PSA. Notwithstanding the foregoing, Royale shall pay/reimburse RMX the proportionate share of interest costs paid for the assets acquired by Royale. Royale's interest payment to RMX shall be owed for the days between the date of RMX's acquisition of the assets and the day Royale exercises its right by wiring funds as detailed in D above.

If RMX is in agreement with the terms and provisions provided in this Letter Amendment, please so signify said agreement by executing in the space provide below and returning one fully executed copy to Royale.

Yours truly,

Johnny Jordan
Johnny Jordan (Oct 18, 2018)

Johnny Jordan, President

ACCEPTED AND AGREED TO THIS 18TH DAY OF OCTOBER 2018

RMX Resources, LLC

jonathangregory
jonathangregory (Oct 19, 2018)

Jonathan Gregory, CEO

Exhibit 31.1

I, Rod Eson, 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: November 19, 2018

/s/ Rod Eson
Rod Eson, Chief Executive Officer

Exhibit 31.2

I, Johnny Jordan, 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: November 19, 2018

/s/ Johnny Jordan
Johnny Jordan, President and Chief Operating Officer

Exhibit 31.3

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: November 19, 2018

/s/ Stephen M. Hosmer

Stephen M. Hosmer, Chief Financial Officer

Exhibit 32.1

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

The undersigned, Rod Eson, Chief Executive Officer of Royale Energy, Inc., a Delaware 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 September 30, 2018 (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: November 19, 2018

By: */s/ Rod Eson*
Rod Eson, Chief Executive Officer

Exhibit 32.2

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

The undersigned, Johnny Jordan, President and Chief Operating Officer of Royale Energy, Inc., a Delaware 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 September 30, 2018 (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: November 19, 2018

By: */s/ Johnny Jordan*
Johnny Jordan, President and Chief Operating Officer

Exhibit 32.3

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

The undersigned, Stephen M. Hosmer, Chief Financial Officer of Royale Energy, Inc., a Delaware 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 September 30, 2018 (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: November 19, 2018

By: */s/ Stephen M. Hosmer*
Stephen M. Hosmer, Chief Financial Officer