

Washington, D.C. 20549

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 000-055912

(Name of registrant in its charter)

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer
Identification No.)

El Cajon, CA 92019

Registrant's telephone number: **619-383-6600**

Securities to be registered pursuant to Section 12(g) of the Act:

(Title of Class)

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. 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 large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act:

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. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☒

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

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

At June 30, 2025, the end of the registrant's most recently completed second fiscal quarter; the aggregate market value of Common Stock held by non-affiliates was \$1,545,769.

At June 30, 2026, 96,600,302 shares of the registrant's Common Stock were outstanding.

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Forward Looking Statements

This Annual Report on Form 10-K (herein, “Annual Report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements, other than statements of historical fact included in this Annual Report regarding our strategy, future operations, financial position, estimated revenues and expenses, projected costs, prospects, plans, and objectives of management are forward-looking statements. When used in this Annual Report, the words “may,” “will,” “could,” “would,” “should,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “plan,” “pursue,” “target,” “continue,” “potential,” “guidance,” “project,” or other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Annual Report. Although we believe that our plans, intentions, and expectations reflected in or suggested by the forward-looking statements we make in this Annual Report are reasonable, we can give no assurance that these plans, intentions, or expectations will be achieved. We are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated. Such factors include:

- our significant working capital deficit and our ability to continue as a going concern;
- declines or volatility in the prices we receive for our oil and natural gas;
- our ability to raise additional capital;
- our ability to generate sufficient net cash provided by operating activities, borrowings, or other sources to enable us to fully develop and produce our oil and natural gas properties;
- general economic conditions, whether internationally, nationally, or in the regional and local market areas in which we do business;
- risks associated with drilling, including completion risks, cost overruns, mechanical failures, and the drilling of noneconomic wells or dry holes;
- uncertainties associated with estimates of proved oil and natural gas reserves;
- the presence or recoverability of estimated oil and natural gas reserves and the actual future production rates and associated costs;
- the effects of inflation on our cost structure;
- substantial declines in the estimated values of our proved oil and natural gas reserves;
- our ability to replace our oil and natural gas reserves;
- the potential for production decline rates and associated production costs for our wells to be greater than we forecast;
- cost and availability of drilling rigs, and related equipment, supplies, personnel, and oilfield services;
- the timing and extent of our success in acquiring, discovering, developing, and producing oil and natural gas reserves;
- our dependence on the availability, use, and disposal of water in our drilling, completion, and production operations;
- significant competition for oil and natural gas acreage and acquisitions;
- environmental or other governmental regulations;
- the occurrence of cybersecurity incidents, attacks or other breaches to our information technology systems or on systems and infrastructure used by the oil and gas industry;
- our ability to find and retain highly skilled personnel and our ability to retain key members of our management team on commercially reasonable terms;
- adverse weather conditions;
- costs and liabilities associated with environmental, health, and safety laws;
- social unrest, political instability, or armed conflict in major oil and natural gas producing regions outside the United States, including evolving geopolitical and military hostilities in the Middle East, Russia and Ukraine and acts of terrorism or sabotage; and
- our insurance coverage may not adequately cover all losses that may be sustained in connection with our business activities.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date that such statements are made. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise

We use our website as a channel of distribution for Company information. We make available free of charge on the Investor Relations section of our website (<https://www.royl.com/investor/>) our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. We also make available through our website other reports filed with or furnished to the Securities and Exchange Commission (“SEC”) under the Exchange Act including our proxy statements and reports filed by officers and directors under Section 16(a) of the Exchange Act, as well as our Code of Business Ethics and our Audit Charter of our board of directors. Paper copies of our filings are also available, without charge upon written request. Please email requests to ir@royl.com or call 800-447-8505. The information contained on our website is not part of this Annual Report.

ROYALE ENERGY, INC.

PART I

Item 1 Description of Business

Royale Energy, Inc. (“Royale” or the “Company”) is an independent oil and natural gas producer incorporated under the laws of Delaware. Royale’s principal lines of business are the production and sale of oil and natural gas, acquisition of oil and gas lease interests and proved reserves, drilling of both exploratory and development wells, and sales of fractional working interests in wells to be drilled by Royale. Royale was incorporated in Delaware in 2017 and is the successor by merger (as described below) to Royale Energy Funds, Inc., a California corporation formed in 1983. On December 31, 2025, Royale and its consolidated subsidiaries had 11 full-time employees.

Recent Activity

On September 3, 2025, the Company, through its wholly-owned subsidiary Royale Energy Funds, Inc, acquired certain non-operated working and net revenue interests in seven gross (.189 net) producing horizontal wells and approximately 382.9 net acres of associated leasehold acreage within the Pradera Fuego project (the “Pradera Fuego Acquisition” or the “Pradera Fuego Acquisition Properties”) from Pradera Fuego, LP (the “Seller”) effective July 1, 2025, for total consideration of \$1.5 million in cash. Prior to the Pradera Fuego Acquisition, Royale held working and revenue interests in certain wells within the Pradera Fuego project, and therefore, the acquisition increased the Company’s aggregate working and revenue interests in the project. The acquisition was financed through a combination of \$1.0 million of cash on hand and an increase in its existing borrowings of additional \$500,000.

Royale Business

Royale and its subsidiaries own wells, leases, and proved and non-proved reserves of oil and natural gas located mainly in Mitchell County and Ector County, Texas and in the Sacramento Basin and San Joaquin Basin in California, as well as in, Oklahoma. Royale also owns an overriding royalty interest in a non-producing well in Alaska. Royale usually sells a portion of the working interest in each well it drills or participates with third-party participants and retains a portion of the prospect for its own account. Selling part of the working interest to others allows Royale to reduce its drilling risk by owning a diversified inventory of properties with less of its own funds invested in each drilling prospect, than if Royale owned all the working interest and paid all drilling and development costs of each prospect itself. Royale generally sells working interests in its prospects to accredited investors (as defined in Regulation D of the SEC) in securities offerings exempt from registration with federal and state securities regulators. The prospects are typically bundled into multi-well investments, which permit the third-party investors to diversify their investments by investing in several wells instead of investing in single well prospects.

During its fiscal year ended December 31, 2025, Royale continued to explore and develop oil and natural gas properties with concentration in Texas. In 2025, Royale participated in the drilling of one gross (0.0035 net) wells, which was commercially productive. Royale’s estimated total proved reserves were approximately 949,727 and 304,200 BOE (barrels of oil equivalent) or 5.7 and 1.8 BCFE (billion cubic feet equivalent) at December 31, 2025 and 2024, respectively. According to the reserve reports prepared by Netherland, Sewell & Associates, Inc., Royale’s independent petroleum engineers, the net reserve value of its proved developed and undeveloped reserves was approximately \$20.5 million at December 31, 2025, based on the average West Texas Intermediate price of \$66.01 per barrel for oil, and the average Henry Hub natural gas spot price of \$3.39 per MCF for gas as applied on a field-by-field basis. Netherland, Sewell & Associates, Inc. supplied reserve value estimates for all of the Company’s California, Texas, and Oklahoma properties.

Proved reserves are those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain.

Proved developed reserves are estimated quantities of oil, natural gas and natural gas liquids (“NGL”) that geological and engineering data demonstrate with reasonable certainty to be commercially recoverable in future years from known reservoirs under existing economic and operating conditions.

Proved developed producing reserves are reserves that can be expected to be recovered from existing wells and completions with existing equipment and operating methods.

Proved developed nonproducing reserves are hydrocarbons in a potentially producing horizon penetrated by a wellbore, the production of which has been postponed pending completion activities and the installation of surface equipment or gathering facilities or pending the production of hydrocarbons from another formation penetrated by the wellbore. The hydrocarbons are classified as proved developed but nonproducing reserves.

Net reserve value does not represent the fair market value of our reserves on that date, and we cannot be sure what return we will eventually receive on its reserves. Net reserve value of proved developed and undeveloped reserves was calculated by subtracting estimated future development costs, future production costs and other operating expenses from estimated net future cash flows from our developed and undeveloped reserves.

Royale’s standardized measure of discounted future net cash flows or “PV-10” a non-GAAP measure, at December 31, 2025, of its reserves was estimated to be \$11,176,100. This figure was calculated by subtracting Royale’s estimated future income tax expense from the net reserve value of proved developed and undeveloped reserves, and by further applying a 10% annual discount for estimated timing of cash flows. PV-10 is the present value of estimated future revenues, discounted at 10% annually, to be generated from the production of proved reserves determined in accordance with the SEC guidelines, net of estimated production and future development costs, using prices and costs as of the date of estimation without future escalation, without giving effect to (i) non-property related expenses such as general and administrative expenses, debt service, and future income tax expense, and (ii) depreciation, depletion and amortization. A calculation of Royale’s standardized measure of discounted future net cash flow is contained in Note 18 to its Financial Statements, Supplemental Information about Oil and Gas Producing Activities (Unaudited)

Royale reported a gain on turnkey drilling in connection with the drilling of wells on a “turnkey contract” basis in the amount of \$1,322,149 for the year ended December 31, 2025. For the year ended December 31, 2024, Royale reported a gain on turnkey drilling in the amount of \$1,607,677. We cannot assure that gains of this type will occur in 2026 or if they do, they will be of similar magnitude.

In addition to Royale’s own staff, Royale hires independent contractors to drill, test, complete and equip the wells that it drills. Approximately 99% of Royale’s total revenue for the year ended December 31, 2025, came from sales of oil and natural gas from production of its wells in the amount of \$1,926,442. In 2024, this amount was \$2,246,073, which represented 99% of Royale’s total revenues for the respective periods presented. See Note 2 to our Financial Statements.

Plan of Business

Royale acquires interests in oil and natural gas reserves and sponsors private working interest participations. Royale believes that its stockholders are better served by diversification of its investments among individual drilling prospects. Through its private placement sale of working interest in certain oil and gas properties, Royale can acquire interests and develop oil and natural gas properties with greater diversification of risk and still receive an interest in the revenues and reserves produced from these properties. By selling some of its working interest in most projects, Royale decreases the amount of its investment required in the projects and diversifies its oil and gas property holdings, to reduce the risk of concentrating a large amount of its capital in a few projects that may not be successful.

After acquiring the leases or lease participation, Royale drills or participates in the drilling of development and exploratory oil and natural gas wells on a property. Royale pays its proportionate share of the actual cost of drilling, testing, and completing the wells to the extent that it retains all or any portion of the working interest.

Royale also sells fractional working interests in undeveloped wells to finance part of the drilling cost. A drilling contract that calls for a company to drill a well, for a fixed price, to a specified depth or geological formation is called a “turnkey contract.” When Royale sells fractional working interests in undeveloped property to raise capital to drill oil and natural gas wells, generally it agrees to drill these wells on a turnkey contract basis, so that the holders of the fractional interests prepay a fixed amount for the drilling and completion of a specified number of wells. Under a turnkey contract, Royale may record a gain if total funds received to drill a well were more than the actual cost to drill those wells including costs incurred on behalf of the participants and costs incurred for its own account.

Although Royale does not usually address whether investors have a right to participate in subsequent wells in the same area of interest as a proposed well, it is the Company’s policy to typically offer to investors in a successful well the right to participate in subsequent wells at the same percentage level as their working interest investment in the prior successful well.

Our policy for turnkey drilling agreements is to recognize a gain on turnkey drilling programs after our obligations have been fulfilled, and a gain is only recorded when funds received from participants are in excess of all costs we incur 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. See Note 1 to our Financial Statements, at page F-9.

Once commenced, drilling is generally completed within 10-30 days. Royale maintains internal records of the expenditure of each investor’s funds for drilling projects.

Royale generally operates the wells it completes. As operator, we receive fees set in line with industry standards from the owners of fractional interests in the wells as well as expense reimbursements. For the year ended December 31, 2025, Royale charged overhead from the operation of the wells in the amount of \$441,965, which were an offset to general and administrative expenses. In 2024, such amount was \$430,680. At December 31, 2025, Royale operated wells in California and Texas. Royale also has non-operating interests in wells in California, Texas, and Oklahoma.

Royale currently sells most of its California natural gas production through Pacific Gas & Electric (“PG&E”) pipelines to independent customers on a monthly contract basis, while some gas is delivered through privately owned pipelines to independent customers. Since many users are willing to make such purchase arrangements, we believe the loss of any one customer would not affect our overall sales operations.

Oil production from the operated Jameson property, in Texas, is sold to Energy Transfer Crude Marketing LLC, less transportation on a renewable evergreen contract based on West Texas Intermediate spot prices. The natural gas is sold pursuant to a long term contract with WTG Jameson, L.P., based on Henry Hub, spot gas prices. Production from the non-operated Pradera Fuego field is sold pursuant to contracts engaged by the operator, and is generally based on posted “spot” prices for the respective products.

All oil and natural gas properties are depleting assets in which production naturally decreases over time as the finite amount of existing reserves are produced and sold. It is Royale’s business as an oil and natural gas exploration and production company to continually search for new development properties. The Company’s success will ultimately depend on its ability to continue locating and developing new oil and natural gas resources. Oil demand is subject to global demand and prices can fluctuate widely. The future market is likely to be subject to continued price dynamics. Natural gas demand and the prices paid for gas are seasonal. In recent years, natural gas demand and prices in Northern California have fluctuated unpredictably throughout the year.

Competition, Markets and Regulation

Competition

The exploration and production of oil and natural gas is an intensely competitive industry. The sale of interests in oil and gas projects, like those Royale sells, is also very competitive. Royale encounters competition from other oil and natural gas producers, as well as from other entities that invest in oil and gas for their own account or for others, and many of these companies are substantially larger than Royale.

Markets

Market factors affect the quantities of oil and natural gas production and the price Royale can obtain for the production from its oil and natural gas properties. Such factors include: the extent of domestic production; the level of imports of foreign oil and natural gas; the general level of market demand on a regional, national and worldwide basis; domestic and foreign economic conditions that determine levels of industrial production; political events in foreign oil-producing regions; and variations in governmental regulations including environmental, energy conservation, and tax laws or the imposition of new regulatory requirements upon the oil and natural gas industry.

Regulation

Federal and state laws and regulations affect, to some degree, the production, transportation, and sale of oil and natural gas from Royale’s operations. States in which Royale operates have statutory provisions regulating the production and sale of oil and natural gas, including provisions regarding deliverability. These statutes, along with the regulations interpreting them, generally are intended to prevent waste of oil and natural gas and to protect correlative rights to produce oil and natural gas by assigning allowable rates of production to each well or proration unit.

Availability of Public Filings

You may obtain a copy of any materials filed by Royale with the Securities and Exchange Commission (“SEC”) at <http://www.sec.gov>. Royale also provides access to its SEC reports and other public announcements on its website, <http://www.royl.com>. The information on our website is not part of this Annual Report on Form 10-K.

Item 1A Risk Factors

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, Royale is not required to provide the information required by this Item.

Item 1B Unresolved Staff Comments

None.

Item 1C Cybersecurity

Risk Management and Strategy

The Company’s cybersecurity environment is led by our third-party information technology (IT) contractor, which, in addition to cybersecurity matters, oversees the Company’s IT infrastructure. The IT contractor is responsible for monitoring and managing the security of the Company’s corporate network and enterprise systems, including technical controls, and safety protocols and responding to security threats.

The Company maintains a cybersecurity risk management program that establishes safeguards for protecting the confidentiality, integrity, and availability of our data, technology, and information systems. The program includes general controls for managing changes in and access to the Company’s IT environment, cybersecurity awareness and training to help employees identify and mitigate against cybersecurity threats, cybersecurity incident response plans and third-party incident response retainers to help expedite the Company’s response in the event of a cybersecurity incident.

The Company’s IT contractor is primarily responsible for the day-to-day operation of the Company’s cybersecurity program and for identifying cybersecurity threats and incidents and managing the material risks associated with the cybersecurity threats. The Company’s IT contractor engages third-party vendors and cybersecurity consortiums periodically for cybersecurity-related guidance and certifications. In the event of a cybersecurity incident, the Company’s process calls for the IT contractor, our Chief Executive Officer and our Chief Financial Officer, to work to assess and respond to the incident and provide briefings to the audit committee of the board of directors.

The audit committee is responsible for providing oversight over management’s processes to identify and evaluate cybersecurity risks to which the Company is exposed and to implement processes and programs to manage cybersecurity risks and mitigate any incidents. The Audit Committee also reports material cybersecurity risks to the board of directors. We believe this risk management process provides visibility and oversight to allow the board and executive leadership team to make timely, data-driven decisions ensuring that the Company, its employees, investors, and partners are adequately protected.

As of and for the year ended December 31, 2025, there have been no cybersecurity incidents that have materially affected the Company’s business strategy, results of operations, or financial condition.

Item 2. Description of Property

Since 1993, Royale had concentrated on development of properties in the Sacramento Basin and the San Joaquin Basin of Northern and Central California. In the last few years it has moved its focus to Mitchell County and Ector County, Texas. In 2025, Royale participated in the drilling of one gross (0.0035 net) oil well in Texas which was productive.

Following industry standards, Royale generally acquires oil and natural gas acreage without warranty of title except as to claims made by, though, or under the transferor. In these cases, Royale attempts to conduct due diligence as to title before the acquisition, but it cannot assure that there will be no losses resulting from title defects or from defects in the assignment of leasehold rights. Title to property most often carries encumbrances, such as royalties, overriding royalties, carried and other similar interests, and contractual obligations, all of which are customary within the oil and natural gas industry.

Following is a discussion of Royale’s significant oil and natural gas properties. Reserves at December 31, 2025, for each property discussed below, have been determined by Netherland, Sewell & Associates, Inc., registered professional petroleum engineers, in accordance with reports submitted to Royale on March 11, 2026.

Texas

At December 31, 2025, Royale owned and operated interests in 26 oil wells in its Jameson field. Additionally, Royale owns interests in eight non-operated oil wells in the Permian Basin in Texas and three non-operated gas wells, two located in Oklahoma and one located in Texas. Our Texas estimated total producing, developed, and undeveloped reserves are approximately 919.6 thousand barrels of oil equivalent (“MBOE”), according to Royale’s independently prepared reserve report as of December 31, 2025. Barrel of oil equivalent or BOE is determined using a ratio of six Mcf of natural gas equal to one barrel of oil equivalent. The ratio does not assume price equivalency and, given price differentials, the price for a BOE for natural gas differs significantly from the price for a barrel of oil. A barrel of NGL also differs significantly in price from a barrel of oil.

California

Royale owns interests in nine gas fields with locations ranging throughout the Sacramento Basin in California. At December 31, 2025, Royale operated 10 wells and owns interests in 12 non-operated gas wells in Northern California and 8 non-operated oil wells in Southern and Central California. Our California estimated total proved, developed, and undeveloped net reserves are approximately 0.170 BCFE, according to Royale’s independently prepared reserve report as of December 31, 2025.

Developed and Undeveloped Leasehold Acreage

As of December 31, 2025, Royale owned leasehold interests in the following developed and undeveloped properties in both gross and net acreage.

	Developed		Undeveloped	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Texas	23,035.00	8,632.75	9,170.00	687.75
California	2,401.02	1,784.84	3,097.25	996.80
Total	25,436.02	10,417.59	12,267.25	1,684.55

Gross and Net Productive Wells

As of December 31, 2025 and 2024, Royale owned interests in the following oil and gas wells in both gross and net:

	2025		2024	
	Gross Wells	Net Wells	Gross Wells	Net Wells
Natural Gas	25	10.2366	26	10.0838
Oil	42	22.0245	40	21.1191
Total	67	32.2611	66	31.2029

Drilling Activities

The following table sets forth Royale’s drilling activities during the years ended December 31, 2025 and 2024. All wells are located in the continental U.S., in California and Texas.

Year	Type of Well(a)	Total	Gross Wells(b)		Net Wells(e)	
			Producing(c)	Dry(d)	Producing(c)	Dry(d)
2025	Exploratory	0	0	0	0	0
	Developmental	1	1	0	0.0035	0
2024	Exploratory	0	0	0	0	0
	Developmental	4	4	0	0.0722	0
2023	Exploratory	0	0	0	0	0
	Developmental	4	3	1	0.3321	0.5679

- a) An exploratory well is one that is drilled in search of new oil and natural gas reservoirs, or to test the boundary limits of a previously discovered reservoir. A developmental well is one drilled on a previously known productive area of an oil and natural gas reservoir with the objective of completing that reservoir.
- b) Gross wells represent the number of actual wells in which Royale owns an interest. Royale’s interest in these wells may range from 1% to 100%.
- c) A producing well is one that produces oil and/or natural gas that is being purchased on the market.
- d) A dry well is a well that is not deemed capable of producing hydrocarbons in economic quantities.
- e) One “net well” is deemed to exist when the sum of fractional ownership working interests in gross wells or acres equals one. The number of net wells is the sum of the fractional working interests owned in gross wells expressed as a whole number or a fraction.

Production

The following table summarizes, for the years indicated, Royale’s net share of oil and natural gas production, average sales price per barrel (BBL), per thousand cubic feet (MCF) of natural gas, and the MCF equivalent (MCFE) for the barrels of oil based on a 6 to 1 ratio of the price per barrel of oil to the price per MCF of natural gas. “Net” production is production that Royale owns either directly or indirectly through partnership or joint venture interests produced to its interest after deducting royalty, limited partner or other similar interests. Royale generally sells its oil and natural gas at prices then prevailing on the “spot market” and does not have any material long term contracts for the sale of natural gas at a fixed price.

	2025	2024	2023
Net volume			
Oil (BBL)			
California	3,597	4,779	4,768
Texas	22,366	21,777	17,615
Other	13	13	16
Total Oil	25,976	26,570	22,399
Gas (MCF)			
California	54,489	58,642	72,167
Texas	60,924	56,153	53,772
Other	1,806	1,610	2,221
Total Gas	117,219	116,406	128,160
BOE	45,513	45,971	43,759
Average sales price			
Oil (BBL)			
California	\$ 65.87	\$ 77.84	\$ 78.44
Texas	\$ 60.87	\$ 71.74	\$ 73.14
Other	\$ 60.00	\$ 68.78	\$ 72.93
Gas (MCF)			
California	\$ 2.58	\$ 2.80	\$ 5.40
Texas	\$ 1.75	\$ 1.59	\$ 0.93
Other	\$ 1.62	\$ 1.28	\$ 2.31
Net production costs and taxes			
California	\$ 520,240	\$ 564,428	\$ 621,658
Texas	\$ 898,160	\$ 1,760,925	\$ 1,358,206
Other	\$ (24,849)	\$ 3,019	\$ 8,375
Lifting costs (per BOE)			
California	\$ 41.03	\$ 38.78	\$ 37.01
Texas	\$ 27.62	\$ 56.56	\$ 51.10
Other	\$ (79.12)	\$ 10.72	\$ 21.69

Reserve Estimates

Management has established, and is responsible for, internal controls designed to provide reasonable assurance that the estimates of proved reserves are computed and reported in accordance with rules and regulations promulgated by the SEC as well as established industry practices used by independent engineering firms and our peers. These internal controls include documented process workflows and qualified professional engineering and geological personnel with specific reservoir experience. Our internal processes and controls surrounding this process include collection and submission of data reconciled with reviewed accounting records for production, lease operating expense, and revenue to our independent reserve engineering firm. We also retain outside independent engineering firms to prepare estimates of our proved reserves. Management reviews and approves our reserve estimates, whether prepared internally or by third parties. Our reserve estimates as of December 31, 2025, which we refer to as the Reserve Report, were prepared based on a report by Netherland, Sewell & Associates, Inc. (“NSAI”), our independent petroleum engineering firm. The Royale’s technical person primarily responsible for overseeing the preparation of its reserve estimates is Johnny Jordan, Royale’s Chief Executive Officer, who oversaw NSAI in connection with the preparation of their estimates of our proved reserves as of December 31, 2025. We also regularly communicate with NSAI throughout the year regarding technical and operational matters critical to Royale’s reserve estimations. Our Chief Executive Officer, with input from other members of management, is responsible for the selection of our third-party engineering firms and review of the reports generated. Mr. Jordan has over 40 years of experience in the oil and natural gas industry and is a graduate of the University of Oklahoma with a degree in Chemical Engineering. During his career, he has had various relevant responsibilities in technical and leadership roles including asset management, drilling and completions, production engineering, reservoir engineering and reserves management, economic evaluations and field development in U.S. onshore projects. Within NSAI, the technical person primarily responsible for preparing the estimates set forth in the Reserve Report meets or exceeds the education, training, and experience requirements set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers, and is proficient in applying industry standard practices to engineering and geoscience evaluations as well as applying SEC and other industry reserves definitions and guidelines. Within NSAI, the technical persons primarily responsible for preparing the estimates set forth in the Reserve Report each have over 20 years of industry experience. NSAI does not own an interest in any of our properties, nor is it employed by us on a contingent basis. The Reserve Report was also provided to Royale’s audit committee.

Net Proved Oil and Natural Gas Reserves

Category	2025		2024	
	Oil (MBBL)	Natural Gas (MMCF)	Oil (MBBL)	Natural Gas (MMCF)
PROVED				
Developed:				
Texas	192.378	573.572	126.730	233.750
California	25.336	22.206	25.820	1.950
All other states	-	6.601	-	2.650
Undeveloped:				
Texas	429.375	1,213.380	86.190	154.450
California	-	-	-	-
All other states	-	-	-	-
TOTAL PROVED	647.089	1,815.759	238.740	392.800
Prices used:	\$ 66.01	\$ 3.39	\$ 76.32	\$ 2.13

As of December 31, 2025, Royale had proved developed reserves of 602,379 MCF and total proved reserves of 1,815,759 MCF of natural gas. As of December 31, 2025, Royale also had proved developed oil and NGL combined reserves of 217,714 BBL and total proved oil and NGL combined reserves of 647,089 BBL.

As of December 31, 2024, Royale had proved developed reserves of 238,310 MCF and total proved reserves of 392,760 MCF of natural gas. As of December 31, 2024, Royale also had proved developed oil and NGL combined reserves of 152,550 BBL and total proved oil and NGL combined reserves of 238,740 BBL.

During 2025, our overall proved developed and undeveloped oil reserves increased by 171.1% and our previously estimated proved developed and undeveloped oil reserve quantities were revised upward by approximately 107 thousand barrels. This upward revision was mainly the result of an increase in proved undeveloped oil reserves from drilling locations which the Company had previously estimated. Our overall proved developed and undeveloped natural gas reserves increased by 362.3% and our previously estimated proved developed and undeveloped natural gas reserve quantities were revised upward by approximately 688 thousand cubic feet of natural gas. This upward revision was mainly the result of an increase in proved undeveloped natural gas reserves from drilling locations which the Company had previously estimated.

Proved Undeveloped Reserves. As of December 31, 2025, the Company’s proved undeveloped reserves totaled approximately 631,605 BOE, consisting of 429,375 barrels of oil and NGL and 1,213,380 MCF of natural gas. During 2025, the Company added 550,400 BOE of proved undeveloped reserves in its Jameson field as a result of new drilling plans in that field. In its other non-operated Texas properties, one gross (0.35 net) well was drilled during 2025, converting 22,400 BOE of proved undeveloped reserves into proved developed reserves, and two newly planned undeveloped wells were added to the Company’s estimates, bringing the total number of proved undeveloped well locations in those properties to six. Capital expenditures incurred during 2025 in connection with the development of the Company’s reserves are set forth in the drilling and capital cost information presented elsewhere in this Annual Report. None of the Company’s proved undeveloped reserves have remained undeveloped for five years or more following their initial disclosure as proved undeveloped reserves.

Oil and gas reserve estimates and the discounted present value estimates associated with the reserve estimates are based on numerous engineering, geological and operational assumptions that generally are derived from limited data.

Item 3 Legal Proceedings

From time to time, the Company may be involved in various legal proceedings or may be subject to claims that arise in the ordinary course of business. The outcome of any such claims or proceedings cannot be predicted with certainty. As of the date of this filing, management is not aware of any such claims against the Company.

Item 4 Mine Safety Disclosures

Not Applicable

PART II

Item 5 Market for Common Equity and Related Stockholder Matters

There is no established trading market for Royale’s Common Stock, which is quoted on the OTCQB Market under the symbol “ROYL.” As of June 30, 2025, 96,600,302 shares of Common Stock were held by approximately 3,052 stockholders of record. The following table reflects the high and low quarterly bid prices as reported on the OTCQB Market from January 2024 through December 2025:

	1st Qtr		2nd Qtr		3rd Qtr		4th Qtr	
	High	Low	High	Low	High	Low	High	Low
2024	\$ 0.07	\$ 0.02	\$ 0.07	\$ 0.03	\$ 0.08	\$ 0.03	\$ 0.07	\$ 0.04
2025	\$ 0.06	\$ 0.03	\$ 0.05	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.03

The OTC QB Market is not an exchange, and any over the counter quotations reflect inter-dealer prices, without retail markup, markdown or commission, and may not necessarily represent actual transactions.

Transfer Agent

The Company utilizes the independent transfer agent services of American Stock Transfer & Trust Company as its transfer agent.

Dividends

The board of directors did not declare cash dividends in either 2025 or 2024. The board of directors did declare dividends during 2024 on the preferred stock to be Paid In Kind (“PIK”) of 65,372 and 84,470 shares with a respective par value of \$653,730 and \$844,700, as more fully set forth in Note 5 to our Financial Statements.

Recent Sales of Unregistered Securities

During the fiscal year ended December 31, 2025, we did not issue any unregistered securities.

During the fiscal year ended December 31, 2024, we issued the following unregistered securities in transactions exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(a)(2) and/or Regulation D thereunder:

Shares Issued for Compensation

Royale issued 1,299,641 shares of common stock to its officers, directors, and consultants in lieu of cash compensation for services rendered. These shares were issued at prevailing market prices or pursuant to existing contractual arrangements, and no underwriters or selling agents were involved.

Shares Issued Upon Conversion of Preferred Stock

On October 11, 2024, Royale completed a significant equity restructuring in which it issued 22,198,095 shares of common stock to former holders of Series B 3.5% Convertible Preferred Stock, representing approximately 90% of the total preferred stock retired. Additionally, 2,538,378 shares were issued for conversion of accrued preferred dividends, resulting in a total of 24,736,473 shares issued related to the preferred equity conversion.

Shares Issued Upon Conversion of Debt

As part of the same, October 11, 2024 restructuring transaction, the Company also issued common stock to settle approximately \$3 million in liabilities, including certain outstanding debt. The specific number of shares issued in connection with debt settlement was not separately disclosed but was included as part of the equity issued in the restructuring.

All of the above issuances were conducted without general solicitation, and the recipients were either accredited investors or had access to such information as would be required to make an informed investment decision. No underwriters or placement agents were involved, and no commissions were paid.

Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations

Management’s Discussion and Analysis of Financial Condition and Results of Operations provides management’s analysis of the Company’s financial performance and of significant trends that may affect future performance. It should be read in conjunction with the financial statements and notes, and supplemental oil and gas disclosures included elsewhere in this report. It contains forward-looking statements including, without limitation, statements relating to the Company’s plans, strategies, objectives, expectations and intentions that are made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that such forward-looking statements should be read in conjunction with the Company’s disclosures under the heading: “Cautionary Statement about Forward-Looking Statements” included elsewhere in this Annual Report.

Overview

Royale is an independent oil and natural gas producer. Royale’s principal lines of business are the production and sale of oil and natural gas, acquisition of oil and gas lease interests and proved reserves, drilling of both exploratory and development wells, and sales of fractional working interests in wells to be drilled by Royale. Since 1993, Royale has acquired and developed producing and non-producing natural gas properties in California. In December 2018, Royale became the operator of a newly acquired field in Texas. The most significant factors affecting the results of operations are (i) changes in oil and natural gas prices, production levels and reserves, (ii) turnkey drilling activities, and (iii) the increase in future cost associated with abandonment of wells.

Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We consider an accounting estimate to be critical if it requires difficult, subjective, or complex judgments and if changes in those judgments could materially affect our financial condition or results of operations. Our most critical accounting estimates relate to (i) estimates of proved oil and natural gas reserves, (ii) asset retirement obligations, (iii) impairment of oil and natural gas properties under the successful efforts methods of accounting for oil and gas related operations. These estimates involve significant judgment because they rely on assumptions about future commodity prices, production profiles, operating and development costs, and other economic factors that are inherently uncertain.

Estimates of proved oil and natural gas reserves

Management considers the estimation of proved oil and natural gas reserve quantities to be the most critical of these estimates, because those quantities drive the rate at which the Company depletes its oil and gas properties under the unit-of-production method and are the basis on which proved properties are tested for impairment. Reserve quantities are estimates, not exact measurements, and their estimation requires the application of significant judgment. The estimates depend on a number of subjective assumptions, including projected production decline rates of producing wells, the timing and volume of production from proved undeveloped locations, the commodity prices prescribed by SEC rules (the unweighted average of the first-of-the-month prices for the prior twelve months), future development and operating costs, and judgments about whether wells are, with reasonable certainty, expected to be economically producible. These assumptions are inherently uncertain, are developed by the Company’s reservoir engineering specialist, and are revised as additional production history, well performance data, commodity prices and economic conditions become available. Accordingly, actual reserves and the timing and amount of future production may differ materially from the estimates used, and revisions can occur from period to period.

Changes in estimated proved reserves have a direct and measurable effect on the Company’s results of operations. Depreciation, depletion and amortization expense was \$259,438 for the year ended December 31, 2025, compared to \$308,523 for 2024; the decrease of \$49,085, or 15.9%, resulted from an increase in expected recoverable reserves that lowered the unit-of-production depletion rate. Because depletion is computed by comparing capitalized cost to remaining recoverable reserves, a downward revision in estimated proved reserves would increase the depletion rate and depletion expense and could indicate that the carrying amount of a proved property is not recoverable, while an upward revision would have the opposite effect. Holding current-year production and net capitalized costs constant, a hypothetical 10% reduction in estimated proved reserves would have increased 2025 depreciation, depletion and amortization expense by approximately \$17,640.

Asset Retirement Obligations

We recognize an asset retirement obligation (“ARO”) for the estimated present value of the future costs to plug and abandon wells, remove equipment and facilities, and restore land and surface conditions. ARO estimates require significant judgment regarding the timing of retirement activities, future regulatory requirements, expected inflation rates, technological changes, and the credit-adjusted discount rate used to measure the obligation. Because these obligations typically will not be settled for many years, the ultimate costs may differ materially from our recorded estimates. Changes in estimated settlement dates, cost assumptions, or discount rates are recognized prospectively and may result in significant increases or decreases in the ARO liability and corresponding asset.

Impairment of Oil and Natural Gas Properties (Successful Efforts Method)

We evaluate our proved oil and natural gas properties for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Under the successful efforts method, impairment is assessed at the lowest level for which identifiable cash flows are largely independent, which is generally a field or reservoir. The recoverability test compares the carrying amount of the asset group to the estimated undiscounted future net cash flows expected to result from the use and eventual disposition of the assets.

Estimating future cash flows requires significant judgment regarding future commodity prices, production profiles, operating and development costs, reserve estimates, and the timing of development activities. These assumptions are inherently uncertain and are based on management’s expectations of future economic and operating conditions, which may differ materially from actual results.

If the carrying amount of an asset group exceeds the estimated undiscounted future net cash flows, we measure the impairment loss as the amount by which the carrying amount exceeds fair value. Fair value is typically determined using a discounted cash flow model that incorporates Level 3 inputs, including internally developed price forecasts, production estimates, cost assumptions, and a market-participant discount rate. Because our asset base is relatively small and concentrated, changes in commodity prices, reserve estimates, or operating cost assumptions may have a more pronounced impact on the recoverability of our properties than would be the case for larger, more diversified producers. Actual results may differ materially from our estimates, and such differences could result in impairment charges in future periods.

Results of Operations for the Year Ended December 31, 2025, as Compared to the Year Ended December 31, 2024

For the year ended December 31, 2025, we incurred a net loss of \$1,251,680 compared to a net loss of \$2,159,016 during 2024. Total revenues from operations in 2025 were \$1,947,203, a decrease of \$315,136 or 13.9%, from the total revenues of \$2,262,339 in 2024, mainly due to lower oil prices during 2025. Total expenses for operations in 2025 were \$4,183,060 a decrease of \$1,605,127 or 27.7%, from total expenses of \$5,788,187 in 2024, mainly due to lower lease operating expenses, lease impairments and credit loss expenses during 2025.

During the year ended December 31, 2025, revenues from oil and gas production decreased \$319,631 or 14.23% to \$1,926,442 from 2024 revenues of \$2,246,073,mainly due to lower oil commodity prices during 2025. The net sales volume of oil and condensate for the year ended December 31, 2025 was approximately 25,976 barrels of oil with an average price of \$64.23 versus approximately 26,570 barrels with an average price of \$72.83 per barrel, in 2024. This represents a decrease in net sales volume of approximately 593 barrels or 2.2%, which was mainly due to some wells being offline during the period in 2025 due to weather related issues in our Texas Jameson field. The net sales volume of natural gas for the year ended December 31, 2025, was approximately 117,219 Mcf with an average price of \$2.20 per Mcf, versus 116,406 Mcf with an average price of \$1.94 per Mcf for the year in 2024. This represents an increase in net sales volume of approximately 813 Mcf or 0.7%, primarily due to wells coming online during the period in 2025.

Oil and natural gas lease operating expenses decreased by \$659,840 or 33.3%, to \$1,323,333 for the year ended December 31, 2025, from \$1,983,173 for the year in 2024. This decrease was mainly due to lower workover-related costs and equipment repairs on our Jameson field during 2025 as we attempted to increase production in 2024. During 2025, we also recorded settlement of accounts payable of \$105,494 with a vendor due to an equipment failure which occurred during a workover. Additionally, during 2025, we recorded a settlement of accounts payable of \$53,583 due to the write-off of accounts payable. When measuring lease operating costs on a production or lifting cost basis, in 2025, the \$1,323,333 equates to a \$4.85 per Mcfe or \$30.61 per BOE lifting cost versus \$7.19 per Mcfe or \$50.70 per BOE lifting cost in 2024.

The aggregate of Other Operating Revenue was \$20,761 for the year ended December 31, 2025, an increase of \$4,495 or 27.6% from \$16,266 for 2024, due to higher rental income received in 2025.

Depreciation, depletion and amortization expense decreased to \$259,438 from \$308,523, a decrease of \$49,085 or 15.9% for the year ended December 31, 2025, as compared to 2024. The depletion rate is calculated using production by comparing capitalized cost to the recoverable reserves remaining. The decrease in depreciation, depletion and amortization expense was due to an increase in expected recoverable reserves which decreased the depletion rate.

General and administrative expenses decreased by \$1,637 or 0.1% from \$1,633,740 for the year ended December 31, 2024, to \$1,632,103 in 2025. Legal and accounting expense decreased to \$446,593 in 2025, compared to \$582,413 in 2024, a \$135,820 or 23.3% decrease. This decrease was primarily due to higher legal fees related to our debt facility entered into during 2024, and preparation of the transaction documents related to the conversion of the Series B Convertible Preferred shares, also during 2024. Marketing expense for the year ended December 31, 2025, decreased \$44,589, or 12.9%, to \$302,455, compared to \$347,044 for 2024. Marketing expense varies from period to period according to the number of marketing events attended by personnel and their associated costs.

At December 31, 2025, Royale had a Deferred Drilling Obligation of \$14,277,496. During 2025, we removed \$2,755,500 of drilling obligations as we participated in drilling and completion of one gross (0.0035 net) successful oil well in the Texas Permian basin, while incurring expenses of \$1,433,351, resulting in a gain of \$1,322,149. At December 31, 2024, Royale had a Deferred Drilling Obligation of \$11,457,996. During 2024, we removed \$6,562,721 of drilling obligations as we participated in drilling and completion of four gross (0.0722 net) successful oil wells in the Texas Permian basin, while incurring expenses of \$4,955,044, resulting in a gain of \$1,607,677.

During 2025, we recorded a \$18,710 gain on settlement of asset retirement obligation liability due mainly to finalizing the plugging and abandonment of three natural gas sites in California. During the years ended December 31, 2025 and 2024, we recorded impairments of \$27,250 and \$400,719, respectively, on various lease and land costs in our California natural gas fields where the carrying value exceeded the fair value. During 2025 and 2024, we also recorded Credit Loss expenses of \$137,221 and \$450,743, respectively, which arose from identified uncollectable receivables relating to our oil and natural gas properties either plugged and abandoned or scheduled for plugging and abandonment and our period end oil and natural gas reserve values. We periodically review our accounts receivable from working interest owners to determine whether collection of any of these charges appears doubtful. During 2024, we also recorded a gain on sale of assets of \$17,500 as we received a credit for well equipment sold during a 2021 sales transaction.

Interest income for the year ended December 31, 2025 and 2024, was \$66,079 and \$46,528, respectively. The higher 2025 interest income was due to higher bank balances during 2025. Interest expense for the year ended December 31, 2025 and 2024, was \$404,051 and \$304,873, respectively. The higher 2025 interest expense was due to the \$1.9 million note payable discussed in Note 15 and the notes payable related to the debt restructuring, discussed in Note 14.

In 2025 and 2024, we did not have an income tax expense due to the use of a percentage depletion carryover valuation allowance created from the current and past operations resulting in an effective tax rate less than the new federal rate of 21% plus the relevant state rates (mostly California, 8.8%).

Capital Resources and Liquidity

At December 31, 2025, Royale had current assets totaling \$10,510,193 and current liabilities totaling \$22,061,032, an \$11,550,839 working capital deficit. We had cash and cash equivalents at December 31, 2025 of \$1,099,044 and restricted cash of \$7,175,950 compared to cash and cash equivalents of \$1,877,163 and restricted cash of \$6,025,000 at December 31, 2024.

Ordinarily, we fund our operations and cash needs from our available credit and cash flows generated from operations. We believe there is doubt that the Company has the ability to meet liquidity demands through cash-flow from operations. In that event, the Company expects to seek alternative capital sources through additional sales of equity or debt securities, or the sale of property, which may not be available at all, or on terms we deem reasonable. We have plans to increase oil and gas revenue participation in the drilling and completion of non-operated wells in the Permian Basin in Texas.

At December 31, 2025, our other receivables net, which consists of joint interest billing receivables from direct working interest participants and industry partners, totaled \$793,608, compared to \$868,429 at December 31, 2024, a \$74,821 decrease. This decrease was mainly due to lower accounts receivables from payment of Joint Interest Bills by direct working interest owners. At December 31, 2025, revenue receivable was \$694,729, a decrease of \$69,924, compared to \$764,653 at December 31, 2024, due to lower uncollected production volumes and commodity prices at year end 2025 when compared to year end 2024. At December 31, 2025, our accounts payable and accrued expenses totaled \$6,033,878, a decrease of \$932,727 from the accounts payable at December 31, 2024 of \$6,966,605, mainly due to lower trade payables and lower revenue payables to direct working interest owners at year end 2025.

We have not engaged in hedging activities nor do we use derivative instruments to manage market risks.

Operating Activities. For the years ended December 31, 2025 and 2024, cash used in operating activities totaled \$2,699,820 and \$2,362,855, respectively. This \$366,965 difference in cash used was mainly due to a decrease in accounts payable and accrued expenses due to payments made during 2025 and lower revenue payables to direct working interest owners.

Investing Activities. Net cash provided by investing activities totaled \$2,584,264 and \$3,344,120 for the years ended December 31, 2025 and 2024, respectively. The \$759,856 difference was due to cash receipts of approximately \$5.6 million in 2025 and \$8.3 million in 2024 in direct working interest turnkey investments. Also, during 2025, our turnkey drilling expenditures were approximately \$2.7 million as we participated in the drilling and completion of one gross (0.0035 net) well in the Permian basin. During 2024, our turnkey drilling expenditures were approximately \$5.1 million as we participated in the drilling and completion of four gross (0.0722 net) wells in the Permian basin.

Financing Activities. Net cash provided by financing activities totaled \$488,387 and \$1,393,377 for the years ended December 31, 2025 and 2024, respectively. The difference in cash provided was due to receipt of \$500,000 during 2025 and \$1.4 million received in 2024 from the note payable discussed in Note 15. During the years ended December 31, 2025 and 2024, \$11,613 and \$6,623, respectively, were used for principal payments on our financing lease payments.

Changes in Reserve Estimates

During 2025, our overall proved developed and undeveloped oil reserves increased by 171.1% and our previously estimated proved developed and undeveloped oil reserve quantities were revised upward by approximately 107 thousand barrels. This upward revision was mainly the result of an increase in proved undeveloped oil reserves from drilling locations which the Company had previously estimated. Our overall proved developed and undeveloped natural gas reserves increased by 362.3% and our previously estimated proved developed and undeveloped natural gas reserve quantities were revised upward by approximately 688 thousand cubic feet of natural gas. This upward revision was mainly the result of an increase in proved undeveloped natural gas reserves from drilling locations which the Company had previously estimated. See Note 18 – Supplemental Information About Oil and Gas Producing Activities (Unaudited), to our Financial Statements.

During 2024, our overall proved developed and undeveloped oil reserves increased by 9.6% and our previously estimated proved developed and undeveloped oil reserve quantities were revised upward by approximately 32 thousand barrels. This upward revision was mainly the result of an increase in proved undeveloped oil reserves from drilling locations which the Company had previously estimated. Our overall proved developed and undeveloped natural gas reserves decreased by 17.1% mainly due to production and our previously estimated proved developed and undeveloped natural gas reserve quantities were revised upward by approximately 4 thousand cubic feet of natural gas. This upward revision was mainly the result of an increase in proved undeveloped natural gas reserves from drilling locations which the Company had previously estimated. See Note 18 – Supplemental Information About Oil and Gas Producing Activities (Unaudited), to our Financial Statements.

Item 7A Qualitative and Quantitative Disclosures About Market Risk

Not a required disclosure for smaller reporting companies.

Item 8 Financial Statements and Supplementary Data

See pages F-1, et seq., included herein.

Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) or 15d-15(e) under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this annual report, as a result of a material weakness in our internal control over financial reporting discussed below.

Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in the 2013 Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Our system of internal control over financial reporting is designed 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.

Based on our evaluation under the framework in Internal Control-Integrated Framework, our Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was not effective as of December 31, 2025, due to a material weakness described below.

Material Weakness and Remediation

Management identified a material weakness that existed because we lack sufficient financial reporting personnel, proper review controls and proper segregation of duties, including within our financial reporting systems, to produce accurate and complete financial records in accordance with SEC and US GAAP requirements. The material weakness continues to exist as of December 31, 2025. Management is in the process of developing a remediation plan designed to improve its internal control over financial reporting and address the identified material weakness. Management will not be able to conclude that it has remediated the material weakness until controls are implemented, operate for a sufficient period of time, and management is able to conclude, through formal testing, that the controls are operating effectively.

PART III

Item 10 Directors, Executive Officers and Corporate Governance

All of our directors serve one-year terms from the time of their election to the time their successor is elected and qualified. The following information is furnished with respect to each director and executive officer who served as such during the fiscal year ended December 31, 2025:

Name	Age	First Became Director or Executive Officer	Positions Held
Chris Parada ^{(1) (2)(3)(4)}	55	2021	Chairman of the Board
Jonathan Gregory ⁽²⁾⁽³⁾	62	2014	Vice-Chair of the Board of Directors
Johnny Jordan	66	2018	Chief Executive and Operating officer and Director
Ronald Lipnick	66	2021	Chief Financial Officer
John Sullivan ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	68	2021	Director
Jeff Kerns ^{(1) (2)(3)(4)}	69	2021	Director
Stephen Hosmer	59	1995	Director

- (1) Members of the audit committee
- (2) Members of the compensation committee
- (3) Members of the nominations committee
- (4) Members indentified as independent

The board has determined that directors John Sullivan, Chris Parada, and Jeff Kerns qualify as independent directors.

The following summarizes the business experience of each director and executive officer for the past six years.

Chris Parada – Chairman of the Board

Mr. Parada currently serves as Managing Director – Energy Finance for Cornerstone Capital Bank, a position he has held since January 2023. With over 30 years of experience in energy finance, Mr. Parada specializes in providing debt capital and structured solutions to private exploration and production (E&P) and midstream oil and gas companies throughout the United States. From April 2021 through December 2022, Mr. Parada was an energy banker, with the title of Vice President of Business Development for Finergy Capital/EnRes Resources, an alternative investment fund providing structured capital solutions to upstream oil and gas companies. From 2013-2019 he served as Managing Director - Head of Energy Finance at LegacyTexas Bank, where his team executed over \$1.5 billion of transactions. Mr. Parada has over 25 years of experience in oil and gas banking and finance. Mr. Parada holds a Bachelor of Business Administration in Finance from Texas A&M University.

Jonathan Gregory – Vice-Chair of the board of directors

Mr. Gregory became a director of Royale in March 2014 and served as Royale’s chief executive officer from September 10, 2015, until June 1, 2018. Prior to becoming Royale’s CEO, Mr. Gregory, from March 2014 to July 2015, served as Chief Financial Officer and Chief Business Development Strategist for Americo Energy Resources, a private exploration and production company located in Houston, Texas. Prior to serving as CFO of Americo Energy, Mr. Gregory was CFO of J&S Oil & Gas, LLC, from April 2012 to February 2014. From December 2004 to April 2012, Mr. Gregory was head of the energy lending group in Houston, Texas for Texas Capital Bank, N.A. Mr. Gregory is presently CEO of RMX, a private Texas based oil and gas company with oil and gas properties primarily located in California, in which, Royale holds an equity interest. Mr. Gregory is also a Credit Advisor to Anvil Capital Partners, a private debt capital provider to upstream energy companies and serves on the advisory board of the Center for Compassionate Leadership. Mr. Gregory graduated from Lamar University in 1986 with a Bachelor’s degree in Finance.

John Sullivan – Director

Mr. Sullivan first became a director and began serving as the Chairman of the board in 2021. Mr. Sullivan is the President of LTD Consulting Services LLC, which provides consulting and management services to private and public companies in the US and SE Asia, a position he has held since 2017. Previously, he held the position of Sr. Director at MMI International, a privately held, global supplier to the Data Storage, Aerospace and Oil and Gas industries from 2011-2017. In this role, he oversaw the sales and global operations for the Precision Forming Group, a division of MMI, with \$250 million in annual sales.

Prior to this, as Director of Operations, COO and President, he spent eleven years, from 1999 until 2011, with Intri-Plex Technologies Inc., a leading design, engineering and manufacturing company to the Data Storage, Semi-conductor and Medical industries. In his various roles, he led the development and implementation of strategic sales and operating initiatives that resulted in significant top and bottom line growth. Overseeing the expansion of the business from a domestic manufacturing company to an international supplier of precision components with manufacturing facilities located in the US and SE Asia.

Previously, he served as COO and President of KR Precision Public Co. Ltd., a publicly held, global supplier of precision mechanical components, John was instrumental in transforming a small privately held company from a niche supplier to a publicly held industry leader listed on the SET 50.

John began his career in 1980 as an entrepreneur, spending ten years as a small business owner in the security and life safety industry. He grew his company organically and through acquisition, diversified its offerings and expanded its geographic footprint prior to it being acquired by ADT International in, a global leader in security and life safety industry, in 1990.

Johnny Jordan – Chief Executive Officer, President, Chief Operating Officer and Director

Mr. Jordan is a petroleum engineer with expertise in acquisitions, field economics and reserves analysis, bank negotiations, reservoir and field operations, and multi-team interaction. Mr. Jordan has been Royale Energy’s Chief Executive Officer since 2019. Mr. Jordan served on the board of directors of Matrix Oil Corporation (“Matrix”) and currently serves on the board of directors of both RMX Resources and CIPA. Mr. Jordan has been active in the oil and gas industry since 1980 beginning as a floor hand on a well service rig. He has held various staff and supervisory positions for Exxon, Mack Energy, Enron Oil and Gas and Venoco Corporation. He co-founded Matrix in 1999 and served as its president until its merger with Royale in 2018. Mr. Jordan is a member of the Society of Petroleum Engineers, American Petroleum Institute and the Texas Independent Producers and Royalty Owners Association. Mr. Jordan has managed acquisition evaluations in many of the oil and gas producing basins in the US. Mr. Jordan received a B.S. in Chemical Engineering from the University of Oklahoma in 1983.

Jeff Kerns – Director

Mr. Kerns was a founding partner of Matrix in 1999, which merged with Royale Energy, Inc. nearly 20 years later in 2018. As a director and officer of Matrix, Mr. Kerns participated in growing Matrix from zero production to owning and operating nearly 500 bbls of oil per day. Mr. Kerns was involved in all aspects of Matrix’s growth, but his primary focus was day to day operations.

Mr. Kerns has served as a consulting engineer to Royale Energy and Matrix from 2018 to present.

Mr. Kerns started in the oil and gas business over 40 years ago as a roughneck in North Dakota working on rigs that drilled through the now famous Bakken Shale heading for deeper targets. Prior to Matrix, Mr. Kerns has held various staff and supervisory positions with Mobil Oil Corp (now ExxonMobil) and Venoco Inc, a small independent company headquartered in Santa Barbara, CA. He also gained broad skills working for many years as a consultant in the oil and gas business.

Mr. Kerns is a registered Professional Engineer in the state of CA. He received a BS degree from Stanford University in 1979. He served as an elected public official for 10 years on the local sanitary district board of directors as well as serving as a past president of a local Rotary International club and president of the San Joaquin Chapter of the American Petroleum Institute and has maintained a long term affiliation with SPE.

Stephen Hosmer – Director, Corporate Secretary

Mr. Hosmer first became a director in 1998, and served through 2018. He was then reappointed in January 2022, following his departure as the Company’s Chief Financial Officer, where he served since 1995. Mr. Hosmer also served as the Company’s Co-Chief Executive Officer from 2008 until September 2015.

During his tenure as CFO, Mr. Hosmer managed the development of over 178 wells, raised capital through a combination of debt and equity sources, and led the acquisition of more than 200 square miles of 3D seismic data. Mr. Hosmer holds a Bachelor of Science degree in Business Administration from Oral Roberts University in Tulsa, Oklahoma and an MBA degree from the President/Key Executive program at Pepperdine University.

Mr. Hosmer currently serves as the CFO for Owners in Honor, Managing Partner of Provident Ventures, and has also served on the board and/or consults for a number of not-for-profit organizations, including Venture Expeditions and Exile International, and Wycliffe Bible Translators.

Ronald Lipnick – Chief Financial Officer

Mr. Lipnick has been with the Company since May 1993 and has been the Chief Financial Officer since February 2022. Prior to that he had been the Controller since February 1994. He is responsible for the Company’s accounting operations from daily accounting activities and general ledger reconciliation to the preparation of financial statements for the Company’s SEC filings. He also works closely with Royale’s certified public accountants during their yearly audits. Mr. Lipnick has more than 37 years of experience in the accounting field. He has a Bachelor of Science in Accounting and a Master of Business Administration in Finance from Oral Roberts University, Tulsa, Oklahoma.

Audit Committee

The board has appointed an audit committee to assist the board of directors in carrying out its responsibility as to the independence and competence of the Company’s independent public accountants. All members of the audit committee are independent members of the board of directors. The audit committee operates pursuant to an audit committee charter, which has been adopted by the board of directors to define the committee’s responsibilities. A copy of the audit committee charter is posted on our website, www.royl.com. The board has determined that Chris Parada qualifies as an “audit committee financial expert” as defined in Item 407(d)(5) of Regulation S-K.

At the end of 2025, the members of the audit committee were John Sullivan (Chair), Jeff Kerns, Chris Parada and Jonathan Gregory.

In 2025 there were four meetings of the audit committee, at which all members participated.

Compensation Committee

Although the Company is not required to maintain a compensation committee, the board has nonetheless appointed a compensation committee to assist the board of directors with respect to executive recruitment, selection, evaluation and compensation. This committee reviews and advises the board of directors on matters involving the personnel/human resource policies, its compensation program, and corporate strategy in compliance with public policy personnel/employment regulations in a changing environment. The compensation committee operates pursuant to a charter, which has been adopted by the board of directors to define the committee’s responsibilities. The compensation committee charter provides that the committee consist of at least two (2) independent directors. A copy of the compensation committee charter is posted on our website, www.royl.com.

At the end of 2025, the members of the compensation committee were Jeff Kerns, John Sullivan, Chris Parada, Jonathan Gregory.

In 2025, there was 1 meeting of the compensation committee, at which all members participated.

Nominating Committee

Although the Company is not required to maintain a nominating committee, the board has nonetheless appointed a nominating committee to assist the board of directors in identifying qualified individuals to become board members, receive and review recommendations by shareholders for board nominations, and determine whether existing board members should be nominated for re-election. The nominating committee operates pursuant to a charter, which has been adopted by the board of directors to define the committee’s responsibilities. The nominating committee charter provides that the committee consist of at least two independent directors. A copy of the nominating committee charter is posted on our website, www.royl.com.

At the end of 2025, the members of the nominating committee were Chris Parada, John Sullivan (Chair), and Jeff Kerns, each of whom is an independent director.

In 2025, there was 1 meeting of the nominating committee, at which all members participated.

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics for our directors and executive officers. The code is posted on our website, www.royl.com.

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act and Securities and Exchange Commission regulations require that Royale’s directors, certain officers, and greater than 10 percent shareholders file reports of ownership and changes in ownership with the SEC and furnish Royale with copies of all such reports they file. The following Form 4’s for common stock issued to current and former board members were filed late, each of these filings consisted of two transactions that occurred in 2024:

Form 4 2024 Common Stock Issuance - Late Filings:

Recipient	Shares issued 2024	Form 4 Filing Status
Johnny Jordan	10,498,464	In Process
Jeffrey Kerns	9,836,649	In Process

Item 11 Executive Compensation

The following table summarizes the compensation of the chief executive officer, chief financial officer and the one other most highly compensated non-executive employee of Royale and its subsidiaries during the past two years.

SUMMARY COMPENSATION TABLE

	Year	Salary (3)	Bonus	Option Awards	All Other Compensation (1)	Total
Johnny Jordan (2)(3)(4) (CEO)	2025	\$ 255,769	\$ -	\$ -	\$ 7,673	\$ 263,442
	2024	\$ 255,769	\$ -	\$ -	\$ 10,018	\$ 265,787
Donald Hosmer (Business Development)	2025	\$ 185,175	\$ 42,500	\$ -	\$ 27,930	\$ 255,605
	2024	\$ 185,175	\$ 81,080	\$ -	\$ 27,930	\$ 294,185
Ronald Lipnick (CFO)	2025	\$ 184,154	\$ -	\$ -	\$ 5,525	\$ 189,679
	2024	\$ 184,154	\$ -	\$ -	\$ 5,525	\$ 189,679

- (1) All other compensation consists of matching contributions to the Company’s simple IRA plan, except for Donald H. Hosmer, who also received a \$12,000 car allowance.
- (2) Salary represents either direct payroll or common stock paid in lieu of taking a cash salary.
- (3) Mr. Jordan became CEO of the Company in January 2019. Mr. Jordan joined the Company as an officer on March 7, 2018.
- (4) There was no compensation paid to Mr. Johnny Jordan for performance (Pay Versus Performance).

In 2025, Johnny Jordan received a salary of \$255,769. He did not receive any bonus or option awards. His additional compensation amounted to \$7,673, resulting in a total compensation of \$263,442. In 2024, Johnny Jordan received a salary of \$255,769. He did not receive any bonus or option awards. His additional compensation amounted to \$10,018, resulting in a total compensation of \$265,787.

For 2025, Donald Hosmer’s salary was \$185,175. He received a bonus of \$42,500 but no option awards. His additional compensation was \$27,930, resulting in a total compensation of \$255,605. In 2024, Donald Hosmer’s salary was \$185,175. He received a bonus of \$81,080 but no option awards. His additional compensation was \$27,930, resulting in a total compensation of \$294,185.

Ronald Lipnick’s 2025 salary was \$184,154. He received no option awards. His additional compensation was \$5,525, resulting in a total compensation of \$189,679. In 2024, his salary was \$184,154. He received no option awards. His additional compensation was \$5,525, resulting in a total compensation of \$189,679.

Stock Options and Equity Compensation; Outstanding Equity Awards at Fiscal Year End

No unvested stock awards were outstanding at the end of 2025.

Compensation Committee Report

Our compensation committee has reviewed and discussed the following Compensation Discussion and Analysis with management and, based on its discussion and review, has recommended that the Compensation Discussion and Analysis be included in this annual report.

Members of the compensation committee:

Chris Parada, John Sullivan (Chair), and Jeff Kerns

All members of the compensation committee are independent members of the board of directors.

Compensation Discussion and Analysis

Our executive compensation policy is designed to motivate, reward and retain the key executive talent necessary to achieve our business objectives and contribute to our long-term success. Our compensation policy for our executive officers focuses primarily on determining appropriate salary levels and performance-based cash bonuses.

The elements of executive compensation at Royale consist mainly of cash salary and, if appropriate, a cash bonus at yearend. The compensation committee makes recommendations to the board of directors annually on the compensation of the three top executives: Johnny Jordan, Chief Executive Officer, Donald H. Hosmer, Business Development, and Ronald Lipnick, Chief Financial Officer.

Royale also does not provide extensive personal benefits to its executives beyond those benefits, such as health insurance, that are provided to all employees. Donald Hosmer receives an annual car allowance.

Policy

The compensation committee’s primary responsibility is making recommendations to the board of directors relating to compensation of our officers. The committee also makes recommendations to the board of directors regarding employee benefits, our defined benefit plans, defined contribution plans, and stock-based plans.

Determination

To determine executive compensation, the committee, from time-to-time, meets with our officers to review our compensation programs, discuss the performance of the Company, the duties and responsibilities of each of the officers pay levels and business results compared to others similarly situated within the industry. The committee then makes recommendations to the board of directors for any adjustment to the officers’ compensation levels. The committee does not employ compensation consultants to make recommendations on executive compensation.

Compensation Elements

Base. Base salaries for our executive officers are established based on the scope of their responsibilities, taking into account competitive market compensation paid by our peers. Base salaries are reviewed annually. The salaries we paid to our most highly paid executive officers and next most highly compensated non-executive officer for the last three years are set forth in the Summary Compensation Table included under *Executive Compensation*.

Bonus. The compensation committee meets annually to determine the quantity, if any, of the cash bonuses of executive officers. The amount granted is based, subjectively, upon the Company’s stock price performance, earnings, revenue, reserves and production. The committee does not use quantifiable metrics for these criteria; but rather uses each in balance to assess the strength of the Company’s performance. The committee believes that formulaic approaches to cash incentives can foster an unhealthy balance between short-term and long-term goals. No cash bonuses were paid to executive officers in 2025 or 2024, other than those listed for Donald Hosmer in the table above.

Compensation of Directors

In 2025, board members or committee member accrued or received fees for attendance at board meetings or committee meetings during the year. In addition to cash payments, Common Stock was issued in lieu of compensation or reimbursements. Royale also reimbursed directors for the expenses incurred for their services.

The following table describes the compensation paid to our directors who are not also named executives for their services in 2025.

Name	Fees paid in Cash or Common Stock	Stock awards	Option awards	All Other Compensation	Total
John Sullivan	\$ 36,000	\$ -	\$ -	\$ -	\$ 36,000
Chris Parada	\$ 36,000	\$ -	\$ -	\$ -	\$ 36,000
Jeff Kerns	\$ 24,000	\$ -	\$ -	\$ -	\$ 24,000
Stephen Hosmer	\$ 36,000	\$ -	\$ -	\$ -	\$ 36,000
Jonathan Gregory	\$ 24,000	\$ -	\$ -	\$ -	\$ 24,000

Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Common Stock

At March 31, 2026, 96,600,302 shares of Royale’s common stock were outstanding.

The following table contains information regarding the ownership of Royale’s common stock as March 19, 2025, by each director and executive officer of Royale, and all directors and officers of Royale as a group and persons owning greater than 5% of the issued and outstanding shares of common stock.

Except pursuant to applicable community property laws and except as otherwise indicated, each shareholder identified in the table below possesses sole voting and investment power with respect to her or his shares. The holdings reported are based on reports filed with the Securities and Exchange Commission and the Company by the officers and directors.

Stockholder (1)	Number	Percent
Johnny Jordan	28,162,723	29.15%
Jeff Kerns	20,225,636	20.94%
Stephen M. Hosmer (2)	2,820,782	2.92%
John Sullivan	2,732,865	2.83%
Jonathan Gregory (3)	2,257,865	2.34%
Chris Parada	1,756,465	1.82%
All officers and directors as a group	57,956,336	60.00%

(1) The mailing address of each listed stockholder is 1530 Hilton Head Rd, Suite 205, El Cajon, California 92021.

(2) Includes 6,000 shares owned by Stephen M. Hosmer’s minor children.

(3) Includes 35,000 shares owned by Mr. Gregory’s son.

Other than Messrs. Jordan and Kerns, as disclosed above, there is no shareholder known by Royale to own beneficially more than 5% of our common stock.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Our Chief Executive Officer, Johnny Jordan, had accrued certain unpaid salary, at December 31, 2024, Mr. Jordan was owed \$46,926, in accrued unpaid guaranteed payments. These amounts were discharged in the restructuring transaction described in Note 14.

In 2018 the board of directors terminated the policy allowing employees and directors to participate, at cost, in wells drilled by the Company. Under the prior policy our former Chief Financial Officer and current board of director’s secretary, Stephen Hosmer, had participated individually in 179 wells. At December 31, 2025, the Company had a receivable balance of \$22,266 due from Stephen Hosmer and \$13,149 from Donald Hosmer for normal lease operating expenses.

At December 31, 2025, we had a total payable of \$23,087 due to RMX and its subsidiary, Matrix, related to certain lease operating expenses for wells operated by RMX, and also had prepaid expenses of \$710,590 primarily for future plugging and abandonment costs for wells operated by RMX. At December 31, 2025, we had a total payable of \$146,596 owed to current and former board members for directors fees.

Royale had outstanding accrued unpaid guaranteed payments for unpaid salaries for employees for periods predating their joining the Company due to a former Matrix employee. At December 31, 2025, the balance due was \$90,000. At December 31, 2025, Royale also had accrued unpaid liabilities of \$12,386 due to a former Matrix employees for periods predating their joining the Company.

Item 14. Principal Accountant Fees and Services

HORNE LLP (“HORNE”) was the Company’s independent registered public accounting firm for the year ended December 31, 2024. Effective as of November 1, 2025, the partners and professional staff of HORNE joined BDO USA, P.C. (“BDO”). As a result of this transaction, HORNE resigned as the Company’s independent registered public accounting firm effective as of November 1, 2025 and the Company, through and with the approval of the Audit Committee, appointed BDO as its independent registered public accounting firm. The following table sets forth the aggregate fees incurred by HORNE for the fiscal year ended December 31, 2024 and by HORNE and BDO for the fiscal year ended December 31, 2025.

	2025	2024
Audit fees (1)	\$ 280,000	\$ 250,000
Tax fees (2)	-	-
All other fees (3)	-	6,500
Total	\$ 280,000	\$ 256,500

- (1) Audit fees are fees for professional services rendered for the audit of Royale Energy’s annual financial statements, reviews of financial statements included in the Company’s Forms 10-Q, audit and review of financial statements of an acquired asset, and reviews of documents filed with the U.S. Securities and Exchange Commission.
- (2) Tax fees consist of tax planning, consulting and tax return reviews.
- (3) Additional fees related to debt and equity restructuring transaction.

The Company’s audit committee has adopted policies for the pre-approval of all audit and non-audit services provided by the Company’s independent auditor. The policy requires pre-approval by the audit committee of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that year, the audit committee must approve the permitted service before the independent auditor is engaged to perform it. During 2025 and 2024 all such audit services and their fees were pre-approved by the audit committee.

PART IV

Item 15 Exhibits and Financial Statement Schedules

The agreements included as exhibits to this report are included to provide information about their terms and not to provide any other factual or disclosure information about Royale or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the respective agreement, and:

- should not be treated as categorical statements of fact, but rather as a way of allocating the risk among the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from the way investors may view materiality; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

1. Financial Statements. See Index to Financial Statements, page F-1

2. Schedules. None.

3. Exhibits. Certain of the exhibits listed in the following index are incorporated by reference.

3.1*	Certificate of Incorporation of Royale Energy, Inc. (formerly Royale Energy Holdings, Inc.) filed with the Secretary of State of Delaware on November 22, 2016 (Incorporated by reference to Exhibit 3.1 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2024, filed with the Securities and Exchange Commission on April 9, 2025).
3.2	Amendment to the Certificate of Incorporation of Royale Energy, Inc., a Delaware corporation, dated February 28th, 2018 (Incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 12, 2018.)
3.3*	Bylaws of Royale Energy, Inc. Bylaws of Royale Energy, Inc. (Incorporated by reference to Exhibit 3.3 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2024, filed with the Securities and Exchange Commission on April 9, 2025).
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
10.17†	Royale Energy, Inc., 2018 Equity Incentive Plan, filed as Exhibit 99.1 to the Company’s Form S-8 filed October 29, 2018
10.27†	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
10.28	Secured Term Loan Note dated February 9, 2024, filed as Exhibit 10.1 to the Company’s form 8-K filed on February 15, 2024
10.29	Amendment to Secured Term Loan Note dated November 1, 2024 (Incorporated by reference to Exhibit 10.1 to the Company’s Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2024.)
10.30	Exchange Agreement, filed as Exhibit 10.1 to the Company’s Form 8-K filed on October 17, 2024
10.31	Form of Series 2024 Senior Promissory Note, filed as Exhibit 10.2 to the Company’s Form 8-K filed on October 17, 2024
10.32	Stock Option Agreement, filed as Exhibit 10.3 to the Company’s Form 8-K filed on October 17, 2024
10.33	Release Agreement, filed as Exhibit 10.4 to the Company’s Form 8-K filed on October 17, 2024
21.1*	Subsidiaries of Registrant
23.1*	Consent of BDO USA, P.C.
23.3*	Consent of Netherland, Sewell & Associates, Inc.
31.1*	Rule 13a-14(a), 115d-14(a) Certification
31.2*	Rule 13a-14(a), 115d-14(a) Certification
32.1*	Section 1350 Certification
32.2*	Section 1350 Certification
99.1*	Report of Netherland, Sewell & Associates, Inc.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

† Management contract or compensatory plan or arrangement.

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.

Date: July 10, 2026

Royale Energy, Inc.

/s/ Johnny Jordan

Johnny Jordan

Chief Executive Officer

Date: July 10, 2026

/s/ Ronald Lipnick

Ronald Lipnick

Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: July 10, 2026

/s/ John Sullivan

John Sullivan

Chairman of the board of directors

Date: July 10, 2026

/s/ Jonathan Gregory

Jonathan Gregory

Vice-Chair of the board of directors

Date: July 10, 2026

/s/ Chris Parada

Chris Parada

Director

Date: July 10, 2026

/s/ Jeff Kerns

Jeff Kerns

Director

Date: July 10, 2026

/s/ Stephen Hosmer

Stephen Hosmer

Director

ROYALE ENERGY, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Royale Energy, Inc.
El Cajon, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Royale Energy, Inc. (the “Company”) as of December 31, 2025 and 2024, the related consolidated statements operations, stockholders’ deficit, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2025 and 2024, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Uncertainty

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a working capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Estimation of Quantities of Future Production Volumes Used to Estimate Proved Oil and Gas Reserves and the Associated Effect on Depreciation, Depletion and Amortization (“DD&A”) Expense Related to Proved Oil and Gas Properties

As disclosed by management and described in Notes 1 and 2 to the consolidated financial statements, the Company uses the successful efforts method of accounting for its oil and gas producing activities. Management uses internal and independent petroleum engineers to make significant estimates, including estimating quantities of proved oil and gas reserves. The Company’s oil and gas properties, net as of December 31, 2025 was \$5.7 million, which includes proved oil and gas properties of \$10.5 million and accumulated depletion, depreciation, and amortization (“DD&A”) of \$8.0 million. DD&A expense was \$0.3 million for the year ended December 31, 2025.

We have identified the estimation of future production volumes used to estimate proved oil and gas reserves and the associated effect on DD&A expense related to proved oil and gas properties as a critical audit matter. Estimating future production volumes involves a high degree of subjectivity from management and their internal and independent petroleum engineers. Auditing the estimation of future production volumes required subjective and complex auditor judgement.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the professional qualifications and objectivity of the internal and independent petroleum engineers, including their relationship to the Company.
- Assessing the reasonableness of the future production volumes by comparing estimates of future production volumes against historical results of production volumes on a summary basis for all wells and on a detailed basis for a sample of wells.
- Performing a retrospective review over management estimates of future production volumes made in the prior period as compared to actual results.

/s/ BDO USA, P.C.
(formerly HORNE LLP)
We have served as the Company’s auditor since 2023.
Houston, Texas
July 10, 2026

ROYALE ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31,

	2025	2024
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,099,044	\$ 1,877,163
Restricted Cash	7,175,950	6,025,000
Other Receivables, net	793,608	868,429
Revenue Receivables	694,729	764,653
Prepaid Expenses and Other Current Assets	746,862	619,913
Total Current Assets	10,510,193	10,155,158
Other Assets	576,265	589,865
Right of Use Asset - Leases	141,417	238,509
Oil and Gas Properties (Successful Efforts Basis), Real Property and Equipment and Fixtures, net	5,774,178	4,656,659
Total Assets	\$ 17,002,053	\$ 15,640,191

The accompanying notes are an integral part of these consolidated financial statements.

ROYALE ENERGY, INC.
CONSOLIDATED BALANCE SHEETS (Continued)
DECEMBER 31,

	2025	2024
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 6,033,878	\$ 6,776,825
Royalties Payable	611,833	611,833
RMX Resources, LLC	23,087	23,087
Leases - Current	102,238	94,070
Asset Retirement Obligation - Current	1,012,500	1,012,500
Deferred Drilling Obligations	14,277,496	11,457,996
Total Current Liabilities	22,061,032	19,976,311
Noncurrent Liabilities:		
Asset Retirement Obligation	4,065,352	4,066,095
Notes Payable	4,121,112	3,489,290
Leases - Non-current	43,386	145,644
Accrued Unpaid Guaranteed Payments	90,000	90,000
Accrued Liabilities - Non-current	12,386	12,386
Total Liabilities	30,393,268	27,779,726
Commitments and Contingencies (See Note 13)		
Stockholders' Deficit:		
Common Stock, \$0.001 Par Value, 280,000,000 Shares Authorized 96,600,302 and 96,600,302 shares issued and outstanding at December 31, 2025 and 2024, respectively	96,600	96,600
Additional Paid in Capital	81,078,554	81,078,554
Accumulated Deficit	(94,566,369)	(93,314,689)
Total Stockholder's Deficit	(13,391,215)	(12,139,535)
Total Liabilities, Stockholders' Deficit	\$ 17,002,053	\$ 15,640,191

The accompanying notes are an integral part of these consolidated financial statements.

ROYALE ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
Revenues:		
Oil, NGL and Gas Sales	\$ 1,926,442	\$ 2,246,073
Other Operating Revenue	20,761	16,266
Total Revenues	1,947,203	2,262,339
Costs and Expenses:		
Oil and Gas Lease Operating	1,323,333	1,983,173
Severance Taxes	73,377	81,832
Impairment	27,250	400,719
Depreciation, Depletion, Amortization, and Accretion	259,438	308,523
Settlement of Asset Retirement Obligation	(18,710)	-
General and Administrative	1,632,103	1,633,740
Credit Loss Expense	137,221	450,743
Legal and Accounting	446,593	582,413
Marketing	302,455	347,044
Total Costs and Expenses	4,183,060	5,788,187
Gain on Turnkey Drilling Programs	1,322,149	1,607,677
Loss from Operations	(913,708)	(1,918,171)
Other Income (Expense):		
Interest Expense	(404,051)	(304,873)
Interest Income	66,079	46,528
Gain on Sale of Assets	-	17,500
Total Other Expense (net)	(337,972)	(240,845)
Net Loss	(1,251,680)	(2,159,016)
Basic and Diluted Loss Per Share	\$ (0.01)	\$ (0.03)
Weighted average number of common shares outstanding, basic and diluted	96,600,302	77,278,047

The accompanying notes are an integral part of these consolidated financial statements.

ROYALE ENERGY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders’ Deficit
	Number Shares Issued and Outstanding	Amount			
Balance, December 31, 2023	70,564,188	\$ 70,564	\$ 54,619,236	\$ (90,133,509)	\$ (35,443,709)
Stock issued in lieu of Cash Compensation	1,299,641	1,299	34,700	-	35,999
Preferred Series B 3.5% Dividend	-	-	-	(653,730)	(653,730)
Preferred Series B Retirement & Conversion to Common	24,736,473	24,737	25,096,547	-	25,121,284
Equity and Debt Restructuring	-	-	1,328,071	(368,434)	959,637
Net Loss	-	-	-	(2,159,016)	(2,159,016)
Balance, December 31, 2024	96,600,302	96,600	81,078,554	(93,314,689)	(12,139,535)
Net Loss	-	-	-	(1,251,680)	(1,251,680)
Balance, December 31, 2025	96,600,302	\$ 96,600	\$ 81,078,554	\$ (94,566,369)	\$ (13,391,215)

The accompanying notes are an integral part of these consolidated financial statements.

ROYALE ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (1,251,680)	\$ (2,159,016)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:		
Depreciation, Depletion, and Amortization	259,438	308,523
Impairment	27,250	400,719
Gain on Sale of Assets	-	(17,500)
Gain on Turnkey Drilling Programs	(1,322,149)	(1,607,677)
Credit Loss Expense	137,221	450,743
Settlement on Asset Retirement Obligation	(78,839)	(151,856)
Stock-Based Compensation	-	35,999
Accretion of Debt Restructure Note Payable Interest	131,822	31,514
Right of Use Asset Depreciation	14,615	7,167
(Increase) Decrease in:		
Other & Revenue Receivables	69,924	(169,046)
Prepaid Expenses and Other Assets	(62,400)	(44,244)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(625,022)	552,911
Royalties Payable	-	(1,092)
Net Cash Used in Operating Activities	<u>(2,699,820)</u>	<u>(2,362,855)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for Oil and Gas Properties	(1,490,736)	(4,914,671)
Acquisition of property	(1,500,000)	-
Proceeds from Turnkey Drilling Programs	<u>5,575,000</u>	<u>8,258,791</u>
Net Cash Provided by Investing Activities	<u>2,584,264</u>	<u>3,344,120</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Long-Term Debt	500,000	1,400,000
Principal Payments on Long-Term Debt	(11,613)	(6,623)
Net Cash Provided by Financing Activities	<u>488,387</u>	<u>1,393,377</u>
Net Increase in Cash, Cash Equivalents, and Restricted Cash	372,831	2,374,642
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	<u>7,902,163</u>	<u>5,527,521</u>
Cash, Cash Equivalents, and Restricted Cash at End of Year	<u><u>\$ 8,274,994</u></u>	<u><u>\$ 7,902,163</u></u>
Supplemental Schedule of Cashflow information		
Cash Paid for Interest	\$ 272,229	\$ 273,360
Cash Paid for Taxes	\$ 9,218	\$ 8,150
Supplemental Schedule of Non-Cash Investing and Financing Transactions:		
Conversion of Preferred Stock to Common	\$ -	\$ 24,664,543
Additions to asset retirement obligation	112,417	865
Revisions to asset retirement obligations	(41,622)	63,224

The accompanying notes are an integral part of these consolidated financial statements.

ROYALE ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Royale Energy, Inc. (in these notes sometimes called “we”, “us”, “our”, “the Company”) is presented to assist in understanding our financial statements.

These consolidated financial statements include the accounts of Royale Energy Inc and our controlled subsidiaries. Investments in unincorporated joint ventures and undivided interests in certain operating assets are consolidated on a pro rata basis. The financial statements and notes are representations of our management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Description of Business

We are an independent oil and gas producer and we also perform turnkey drilling operations. We own wells and leases in major geological basins located primarily in California, Texas, and Oklahoma, and offer fractional working interests and seek to minimize the risks of oil and gas drilling by selling multiple well drilling projects which do not include the use of debt financing.

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.

Estimated quantities of crude oil and condensate, Natural Gas Liquids (“NGLs”) and natural gas reserves is a significant estimate that requires judgment. All of the reserve data included in this Form 10-K are estimates. Reservoir engineering is a subjective process of estimating underground accumulations of crude oil and condensate, NGLs and natural gas. There are numerous uncertainties inherent in estimating quantities of proved crude oil and condensate, NGLs and natural gas reserves. The accuracy of any reserves estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, reserve estimates may be different from the quantities of crude oil and condensate, NGLs and natural gas that are ultimately recovered. See Note 18 – Supplemental Information About Oil and Gas Producing Activities (Unaudited) to our Consolidated Financial Statements for further detail.

Other items subject to estimates and assumptions include the carrying amounts of accounts receivable, property, plant and equipment, equity method investments, asset retirement obligations, and valuation allowances for deferred tax assets, among others. Although we believe these estimates are accurate, actual results could differ from these estimates.

Liquidity and Going Concern

Management evaluated whether conditions and events, considered in the aggregate, raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date the accompanying consolidated financial statements are issued. The accompanying financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classifications of liabilities that might result from the outcome of this uncertainty.

The primary sources of liquidity have historically been issuances of common stock, oil and gas sales through ongoing operations and the sale of oil and gas properties. There are factors that give rise to substantial doubt about our ability to meet liquidity demands, and we anticipate that our primary sources of liquidity will be from the issuance of debt and/or equity, the sale of oil and natural gas property participation interests through our normal course of business and the sale of non-strategic assets.

Our 2025 consolidated financial statements reflect a working capital deficiency of \$11,550,839, an accumulated deficit of \$94,566,369 and recurring net losses from operations. 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 we are unable to continue as a going concern.

Management’s plans to alleviate the going concern by implementing cost control measures that include the reduction of overhead costs and through the sale of non-strategic assets, and to seek additional debt and/or equity financing. 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 us and whether we will generate positive operating cash flow or become profitable. If we are unable to raise sufficient additional funds, we will have to develop and implement a plan to further extend payables and reduce overhead until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful.

Revision of Previously Issued Financial Statements

During the preparation of the 2025 consolidated financial statements, immaterial errors were identified related to:

- Severance taxes were inappropriately netted against Sale of Oil and Gas Revenue within our statement of operations, resulting in the understatement of Sale of Oil & Gas Revenue and Lease Operating Expense of \$81 thousand during 2024.
- Errors in the calculation of the tax basis of Oil and Gas Properties resulted in a \$2.4 million overstatement of the disclosure of deferred tax assets and the related valuation allowance, resulting in zero net impact on Net Deferred Tax Assets.
- An error in the treatment of future income tax expense resulted in an understatement of approximately \$2 million (unaudited) in our disclosures of the standardized measure of discounted future cash flows as of December 31, 2024. In addition, there were errors in the calculation of the various changes in the standardized measure (unaudited).
- Accrued liabilities and accumulated deficit were overstated by \$189 thousand as a result of an error that occurred prior to 2023. This overaccrual was corrected by the Company during the quarter ended June 30, 2025.
- Settlements of ARO liabilities of approximately \$152 thousand were incorrectly presented in the statement of cash flows during the year ended December 31, 2024.

We assessed the materiality of the errors, both quantitatively and qualitatively, in accordance with the SEC’s Staff Accounting Bulletin No. 99 and Staff Accounting Bulletin No. 108, and concluded the errors were not material to any of our previously issued financial statements. Notwithstanding the results of the assessment, we have revised the applicable items in our previously issued financial statements to correct these misstatements. Accordingly, all consolidated financial information contained in these consolidated financial statements and the accompanying notes have been revised to reflect the corrections. Previously reported financial information will be corrected in future filings, as applicable.

Restricted Cash

We sponsor turnkey drilling arrangements in proved and unproved properties. The contracts require that participants pay us the full contract price upon execution of the drilling agreement. Each participant earns an undivided interest in the well bore at the completion of the well. A portion of the funds received in advance of the drilling of a well from a working interest participant are held for the expressed purpose of drilling a well. If something changes, we may designate these funds for a substitute well. Under certain conditions, a portion of these funds may be required to be returned to a participant. Once the well is drilled, the funds are used to satisfy the drilling cost. We classify these funds prior to commencement of drilling as restricted cash. In the event that progress payments are made from these funds; they are recorded as Prepaid Expenses and Other Current Assets.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the statement of cash flows.

	Year Ended December 31,	
	2025	2024
Cash and cash equivalents	\$ 1,099,044	\$ 1,877,163
Restricted cash	7,175,950	6,025,000
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 8,274,994</u>	<u>\$ 7,902,163</u>

Other Receivables, net

Our other receivables consist of receivables from direct working interest investors and industry partners. We account for expected credit losses on receivables using the Current Expected Credit Loss (CECL) methodology. Under this standard, an allowance for expected credit losses is established and adjusted based on historical loss experience, current conditions, and reasonable and supportable forecasts of future economic conditions. The allowance account is increased or decreased in response to changes in these factors, reflecting our best estimate of credit losses over the remaining life of the receivables.

All amounts considered uncollectible are charged against the allowance account and recoveries of previously charged off accounts are added to the allowance. At December 31, 2025 and 2024, we established an allowance for expected credit loses of \$2,302,873 and \$2,194,552, 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. Historically, we have not had issues related to the collection of revenue receivables, and as such have determined that an allowance for revenue receivables is not currently necessary.

Allowance for Credit Losses

We measure our allowance for losses on other receivables including, under ASC 326. The following table summarizes the activity in the balance of allowance for credit losses on other receivables for the period indicated:

Balance at December 31, 2023	\$	1,837,551
Provision for credit loss		450,743
Write-offs charged against the allowance		(93,742)
Balance at December 31, 2024	\$	2,194,552
Balance at December 31, 2024	\$	2,194,552
Provision for credit loss		137,221
Write-offs charged against the allowance		(28,900)
Balance at December 31, 2025	\$	2,302,873

Equity Method Investments

Equity method investments are assessed for impairment whenever changes in the facts and circumstances indicate a loss in value may have occurred as called for under ASC 323, Investments—Equity Method and Joint Ventures. When a loss is deemed to have occurred and is other than temporary, the carrying value of the equity method investment is written down to fair value, and the amount of the write-down is included in income.

The Company’s only equity method investment is its holding in the RMX joint venture. At December 31, 2025, the Company had no balance related its investment in RMX, due to previously recognized impairments.

Revenue Recognition

A significant portion of our revenues are derived from the sale of crude oil, condensate, NGL and natural gas under spot and term agreements with our customers as follows:

	Year Ended December 31,	
	2025	2024
Oil & Condensate Sales	\$ 1,664,862	\$ 2,010,742
Natural Gas Sales	257,684	231,765
NGL Sales	3,896	3,566
	\$ 1,926,442	\$ 2,246,073

The pricing in our hydrocarbon sales agreements are 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 sheets.

Under our hydrocarbon sales agreements, the entire consideration amount is variable either due to pricing and/or volumes. We recognize revenues 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, and such reimbursements are recorded as cost reimbursements of Lease Operating Expense.

We commonly market the share of production belonging to other working interest owners as the operator of jointly owned oil and gas properties. 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.

We frequently sells a portion of the working interest in each well we drill or participate in to third-party investors and retains a portion of the prospect for our own account. We typically guarantee a cost to drill to the third-party drilling participants and record 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, we record 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, 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 cost is netted directly against revenues. 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

We manage these Turnkey Agreements for the participants of the well. The collections of pre-drilling Authorization for Expenditure (“AFE”) amounts are segregated 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. We manage the performance obligation for the well participants and only record revenue or expense at the time the performance obligation of the Turnkey Agreement has been satisfied.

Other Operating Revenue

For the years ended December 31, 2025 and 2024, we recognized \$20,761 and \$16,266, respectively in supervisory fees in Pipeline and Compressor fees which were received and allocated based on production volumes.

Oil and Gas Property and Equipment

Successful Efforts

We use the “successful efforts” method to account for our exploration and production activities. Under this method, we accumulate our proportionate share of costs on a well-by-well basis with certain exploratory expenditures and exploratory dry holes being expensed as incurred, and capitalize expenditures for productive wells. We amortize the costs of productive wells under the unit-of-production method.

We carry, as an asset, exploratory well costs when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where we are making sufficient progress assessing the reserves and the economic and operating viability of the well. 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. 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 Cost

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 our 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.

Depreciation, Depletion and Amortization

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 drilling phase commences with the development of the detailed engineering design and ends when the 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.

Impairment

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 operations. During 2025 we recorded impairment losses of \$27,250, on various capitalized lease and land costs where the carrying value exceeded the estimated fair value. In 2024 we recorded impairment losses of \$400,719.

Upon the sale or retirement of a complete field of a proved property, we eliminate the cost from our books, and the resultant gain or loss is recorded to our consolidated statements 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 our consolidated statements 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 our turnkey drilling agreements include unproved property, total drilling costs incurred to satisfy our 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.

Asset Retirement Obligations

The Asset Retirement and Environmental Obligations Topic of the ASC 410-20 requires that an asset retirement obligation (“ARO”) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard), with an associated increase in the carrying amount of the related long-lived asset. The cost of the tangible asset, including the initially recognized asset retirement cost, is depreciated over the useful life of the asset. The ARO is recorded at the estimated fair value, and accretion expense will be recognized over time as the discounted liability is accreted to its expected settlement value. Accretion expense is included as part of Depreciation, Depletion and Amortization in the Consolidated Statement of Operations. The fair value (as provided in ASC 820 guidance) of the ARO is a Level 3 measurement using expected future cash outflows discounted at our credit-adjusted risk-free interest rate. The provisions of this Topic apply to legal obligations associated with the retirement of long-lived assets that result from the acquisition, development, and operation of a long-lived asset.

Long-Lived Assets Classified as Held for Sale

We classify long-lived assets as Held-for-Sale when the criteria of ASC 360-10-45-9 through 45-11, Impairment and Disposal of Long-Lived Assets, have been met. This criterion is listed below:

- Management has committed to a plan to sell the asset;
- The asset group is available for immediate sale in its present condition;
- An active program is underway to locate potential buyers;
- The sale is probable within one year;
- The asset group is being marketed at a price that is reasonable relative to its current fair value; and
- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or the plan will be withdrawn.

Assets held for sale are carried at the lower of cost or fair market value less cost of disposal in current assets. If we retain the responsibility for the P&A, equipment removal or site restoration, the associated anticipated expense is carried as current an asset retirement obligation (“ARO”) (See Note 3, below).

Turnkey Drilling

We sponsor turnkey drilling agreement arrangements in proved and 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 our obligations and are incurred with any excess booked against our property account to reduce any basis in our own interest. Gains on Turnkey Drilling Programs represent funds received from turnkey drilling participants in excess of all costs we incur during the drilling programs (e.g., lease acquisition, exploration and development costs), including costs incurred on behalf of participants and costs incurred for our own account; and are recognized only upon making this determination after our obligations have been fulfilled.

The contracts require the participants pay us the full contract price upon execution of the agreement. We complete 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. We retain 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. We hold 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 December 31, 2025 and 2024, we had Deferred Drilling Obligations of \$14,277,496 and \$11,457,996, respectively. During 2025, we disposed of \$2,755,500 of drilling obligations as we participated in drilling and completion of one gross (0.0035 net) successful oil well in the Texas Permian basin, while incurring expenses of \$1,433,351, resulting in a gain of \$1,322,149. During 2024, we disposed of \$6,562,721 of drilling obligations as we participated in the drilling and completion of four gross (0.0722 net) wells in Texas Permian basin, while incurring expenses of \$4,955,044, resulting in a gain of \$1,607,677.

If we are unable to drill the wells, and a suitable replacement well is not found, we would retain the non-refundable portion of the contract and return the remaining funds to the participant. Included in restricted cash are amounts for use in completion of turnkey drilling programs in progress.

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.

Loss Per Share

Basic and diluted losses per share are calculated as follows:

	Year Ended December 31,			
	2025		2024	
	Basic	Diluted	Basic	Diluted
Net Loss	\$ (1,251,680)	\$ (1,251,680)	\$ (2,159,016)	\$ (2,159,016)
Less: Preferred Stock Dividend	-	-	653,730	653,730
Less: Non-cash Restructuring Inducements	-	-	674,341	674,341
Net Loss Attributable to Common Shareholders	(1,251,680)	(1,251,680)	(3,487,087)	(3,487,087)
Weighted average common shares outstanding	96,600,302	96,600,302	77,278,047	77,278,047
Effect of dilutive securities	-	-	-	-
Weighted average common shares, including Dilutive effect	96,600,302	96,600,302	77,278,047	77,278,047
Per share:				
Net Loss	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)

Income Taxes

We utilize the asset and liability approach to measure deferred tax assets and liabilities based on temporary differences existing at each balance sheet date using currently enacted tax rates in accordance with the Income Taxes Topic of the ASC 740. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Under the Topic, 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.

The provision for income taxes is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported net amounts.

Fair Value Measurements

According to Fair Value Measurements and Disclosures guidance as provided by ASC 820 and 825, assets and liabilities that are measured at fair value on a recurring and nonrecurring basis in periods subsequent to initial recognition, the reporting entity shall disclose information that enable users of our 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, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider counterparty credit risk in our assessment of fair value. Carrying amounts of our 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.

As of December 31, 2025, we have financial liabilities, including outstanding notes, that have been measured at fair value on a nonrecurring basis. The carrying values of financial instruments comprising cash, payables, and receivables, approximate fair values due to the short-term maturities of these instruments and are classified as Level 1 in the fair value hierarchy. The carrying amounts of cash and cash equivalents, accounts receivable, and other current assets approximate their fair values due to the short-term maturities of these instruments.

As part of the Series B Convertible Preferred Stock restructuring transaction, the Company issued Series 2024 Senior Unsecured Promissory Notes in exchange for approximately 10% of the outstanding Series B shares. These notes have varying interest rate periods:

- 0.0% interest through December 31, 2025
- 5.0% interest from January 1, 2026, to December 31, 2027
- 8.0% interest from January 1, 2028, to June 30, 2029 (maturity date)

The fair value of these notes was determined using a discounted cash flow model based on an assumed market interest rate of 11.912%, reflecting the Company’s estimated borrowing rate (Wall Street Journal Prime Rate plus 400 basis points as of October 1, 2024). Based on this valuation methodology, the following table sets out the fair value and carrying value of the notes issued.

The fair value measurement of these notes is classified as Level 3 in the fair value hierarchy due to the use of significant unobservable inputs, including management’s assessment of credit risk and cash flow projections. The carrying amount of these notes will be accreted to their face value over the term using the effective interest rate method.

The carrying values and estimated fair values of these notes were as follows:

	Carrying Value	Fair Value
December 31, 2025		
Series 2024 Senior Unsecured Promissory Notes	\$ 2,221,112	\$ 2,369,158
Walou Note	1,900,000	2,032,792
December 31, 2024		
Series 2024 Senior Unsecured Promissory Notes	2,057,775	2,116,983
Walou Note	1,400,000	1,497,847

Additionally, the restructuring included the issuance of 25,000,000 stock warrants exercisable at \$0.10 per share, expiring June 30, 2029. The warrants were valued using the Black-Scholes-Merton model, resulting in a fair value of \$0.04 per warrant or an aggregate value of \$995,503, which is classified as equity and not a liability for fair value measurement purposes.

See Note 2 – Oil and Gas Properties, Equipment and Fixtures for further discussion of our asset retirement obligations and property transactions.

Accounts Payable and Accrued Expenses

At December 31, 2025 and 2024, the components of accounts payable and accrued expenses consisted of:

	2025	2024
Trade Payables and accruals	\$ 3,235,457	\$ 3,946,583
Direct working interest investors related accruals	2,050,399	2,322,690
Current drilling efforts accrued expenses	335,041	120,102
Accrued Liabilities	210,516	210,516
Employee related accruals	197,175	169,079
Deferred rent	5,290	7,855
	<u>\$ 6,033,878</u>	<u>\$ 6,776,825</u>

Accrued – Non-current

At December 31, 2025 and 2024, we had non-current accrued liabilities of \$12,386 and accrued unpaid guaranteed payment of \$90,000. These were due to certain Matrix Oil Corp (“Matrix”) principals, from periods prior to the merger with the Matrix entities during March of 2018.

Business Combinations

From time-to-time, we acquire businesses in the oil and gas industry. We primarily target businesses in geological basins that we consider to be in a focus area. Businesses are included in the consolidated financial statements from the date of acquisition.

We recognize, separately from goodwill, the identifiable assets acquired and liabilities assumed at their estimated acquisition-date fair values. We measure and recognize goodwill as of the acquisition date as the excess of: (1) the aggregate of the fair value of consideration transferred, the fair value of any noncontrolling interest in the acquiree (if any) and the acquisition date fair value of our previously held equity interest in the acquiree (if any), over (2) the fair value of assets acquired and liabilities assumed. If information about facts and circumstances existing as of the acquisition date is incomplete by the end of the reporting period in which a business combination occurs, we report provisional amounts for the items for which the accounting is incomplete. The measurement or allocation period ends once we receive the information we are seeking; however, this period will generally not exceed one year from the acquisition date. Any material adjustments recognized during the measurement period will be reflected retrospectively in the consolidated financial statements of the subsequent period. We recognize third-party transaction-related costs as expense currently in the period in which they are incurred.

If the set of assets and activities acquired is not considered a business under GAAP, the acquisition is accounted for as an asset acquisition using a cost accumulation model. In the cost accumulation model, the cost of the acquisition, including certain transaction costs, is allocated to the assets acquired on the basis of relative fair values, and no goodwill is recognized. The Pradera Fuego Acquisition was accounted for as an asset acquisition under GAAP.

Changes in Accounting Standards

Recently Adopted

In December 2023, the FASB issued Accounting Standards Update (“ASU”) 2023-09, Income Taxes (Topic 740) (“ASC 740”): Improvements to Income Tax Disclosures (“ASU 2023-09”) to expand the disclosure requirements for income taxes, specifically related to the rate reconciliation and income taxes paid. ASU 2023-09 is effective for annual periods beginning January 1, 2025, with early adoption permitted. We have adopted ASU 2023-09 for the annual period ended December 31, 2025 and have conformed our income tax disclosures in Note 4 to reflect the new requirements.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which enhances the disclosures required for operating segments in the Company’s annual and interim consolidated financial statements. This ASU is effective retrospectively for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024. The Company adopted this update effective January 1, 2024. See Note 14 - Segments. The adoption and implementation of this standard did not have a material impact on the Company’s disclosures.

Recently Issued, Not Yet Adopted

We have reviewed all other recently issued accounting pronouncements that are not yet effective and have determined that none are currently expected to have a material impact on our consolidated financial statements upon adoption.

In November 2024, the FASB issued ASU 2024-03, Income Statement (Subtopic 220-40) Reporting Comprehensive Income-Expense Disaggregation Disclosures, which broadens the disclosures required for certain costs and expenses in the Company’s annual and interim consolidated financial statements. This ASU is effective prospectively for fiscal years beginning after December 15, 2026, and interim reporting periods within fiscal years beginning after December 15, 2027. The Company is currently evaluating disclosures related to our annual report for fiscal year 2027.

NOTE 2 – OIL AND GAS PROPERTIES, REAL PROPERTY AND EQUIPMENT AND FIXTURES

Oil and gas properties, real property and equipment and fixtures consist of:

	Year ended December 31,	
	2025	2024
Oil and Gas		
Producing properties, including intangible drilling costs	\$ 7,229,767	\$ 5,764,761
Undeveloped properties	3,237,624	3,339,234
Lease and well equipment	3,298,441	3,295,028
Total Oil and Gas Properties	13,765,832	12,399,023
Accumulated depletion, depreciation and amortization	(7,995,503)	(7,748,190)
Net capitalized costs Total	\$ 5,770,329	\$ 4,650,833
Commercial and Other		
	2025	2024
Vehicles	40,061	40,061
Furniture and equipment	1,103,362	1,103,362
Total Commercial and Other	1,143,423	1,143,423
Accumulated depreciation	(1,139,574)	(1,137,597)
	3,849	5,826
Net capitalized costs Total	\$ 5,774,178	\$ 4,656,659

The guidance set forth in the Continued Capitalization of Exploratory Well Costs paragraph of the Extractive Activities Topic of the FASB ASC 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 do not have any capitalized exploratory well costs. Undeveloped properties are not subject to depletion, depreciation or amortization.

NOTE 3 – ASSET RETIREMENT OBLIGATION

The Asset Retirement and Environmental Obligations Topic of the ASC 410-20 requires that an asset retirement obligation (“ARO”) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard), with an associated increase in the carrying amount of the related long-lived asset. The cost of the tangible asset, including the initially recognized asset retirement cost, is depreciated over the useful life of the asset.

There were no changes in estimates for the years ended December 31, 2025 and 2024.

	2025	2024
Asset retirement obligation		
Beginning of the year	\$ 5,078,595	\$ 4,826,847
Liabilities incurred during the period	112,417	865
Settlements	(78,839)	(151,856)
Changes in Working Interest	26,085	(4,716)
Changes in estimates	(67,707)	405,440
Accretion expense	7,300	2,015
End of year	\$ 5,077,852	\$ 5,078,595

We record accretion expense as part of Depreciation, Depletion and Amortization. Accretion expense was \$7,300 and \$2,015 for the years ended December 31, 2025 and 2024, respectively.

NOTE 4 – INCOME TAXES

The components of income (loss) before income taxes were as follows:

	2025	2024
U.S.	\$ (1,251,680)	\$ 92,159,014)
Non-U.S.	\$ -	\$ -

The reconciliation between the actual provision for income taxes and that computed by applying the U.S. statutory rate to income (loss) before income taxes are outlined below based on the updated requirements of ASU 2023-09 for 2025.

	2025	
Current tax at U.S. statutory rate	\$ (222,999)	21.00%
State and local income taxes, net of federal taxes	(37,891)	3.57%
Foreign Tax Effects	-	-%
Effects of Changes in Tax Law or Rates Enacted in the Current Period	-	-%
Effect of cross-border tax law	-	-%
Tax Credits	-	-%
Changes in Valuation Allowance	176,562	16.63%
Nondeductible/nontaxable items		
Nondeductible/nontaxable items	1,642	(0.15%)
Changes in Unrecognized Tax Benefit	-	-%
Other Adjustments		
Deferred Adjustment	82,686	79%
Income tax expense	\$ -	-%

As previously disclosed prior to the adoption of ASU 2023-09, the effective income tax rate differs from the statutory federal income tax rate as follows

	2024
Tax (benefit) computed at statutory rate of 21% at December 31, 2024, respectively	\$ (518,740)
Increase (decrease) in taxes resulting from:	
Meals & Entertainment	915
Prior-year true-up for Books	2,380,175
Deferred State Taxes, net of federal benefit	(102,681)
Other non-deductible expenses	-
Change in valuation allowance	(1,759,669)
Provision (benefit)	\$ -

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.

Significant components of our deferred assets and liabilities at December 31, 2025 and 2024, respectively, are as follows:

	2025	2024
Deferred Tax Assets (Liabilities):		
Accrued Expenses	\$ 98,999	\$ 22,249
Net Operating Loss	9,450,310	9,288,524
Accretion	615,894	613,254
Share-Based Compensation	86,510	86,510
Charitable Contributions Carry Forward	2,796	2,743
Other		14,266
Allowance for Doubtful Accounts	599,207	571,022
Interest Expense Limitations		67,221
Oil and Gas Properties and Fixed Assets	3,292,967	3,320,659
Investment in RMX Joint Venture	139,969	123,640
Total deferred tax assets	14,286,652	\$ 14,110,089
Valuation Allowance	(14,286,652)	(14,110,089)
Net Deferred Tax Asset	\$ -	\$ -

During the current year audit, it was determined that there were two immaterial errors in the 2024 income tax disclosures. The deferred tax asset for Oil and Gas Properties and Fixed Assets was overstated by \$2.4 million. The error was caused by two different items. The first error was to record a deferred tax liability in work in process where none should have been recorded. The second error was to have recorded a deferred tax liability twice related to the book impairment on oil and gas properties. Both of these changes are completely offset by an equal offsetting change to the valuation allowance resulting in a net impact of \$0 on the face of the financials. Only the income tax footnote disclosures were impacted by these errors.

As of December 31, 2025, management reviewed the reliability of our net deferred tax assets, and due to our continued cumulative losses, we concluded it is not “more-likely-than-not” our deferred tax assets will be realized. As a result, we have continued to record a full valuation allowance against the deferred tax assets. We will assess the realizability of the deferred tax assets at least yearly and make appropriate updates as needed. We and our subsidiaries have available net operating loss carryforwards of \$20.5 million generated in tax years ended before January 1, 2018, which if not utilized, expire in varying amounts between 2026 and 2037. We have \$13.7 million net operating loss carryforwards generated after December 31, 2017, which can be carried forward indefinitely.

As of December 31, 2025, we did not recognize a liability for uncertain tax positions. Currently, the only differences between our financial statements and our income tax returns relate to normal timing differences such as depreciation, depletion and amortization, which are recorded as deferred taxes on our balance sheets. We do not expect our unrecognized tax benefits to change significantly over the next 12 months. The tax years of 2020 through 2024 remain open to examination by the tax jurisdictions in which we file income tax returns.

Net income taxes paid (received) during the years ended December 31, 2025 and 2024, by federal and state jurisdiction (all states combined), were as follows:

	2025	2024
Federal	\$ -	\$ -
State	9,218	8,150
Total income taxes paid, net	\$ 11,243	\$ 10,174

NOTE 5 – SERIES B PREFERRED STOCK

Pursuant to the terms of the merger completed in 2018, all Class A limited partnership interests of Matrix Investments, LP (“Matrix Investments”) were exchanged for our 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 our Series B Convertible Preferred Stock. The Series B Convertible Preferred Stock was convertible at the option of the security holder at the rate of ten shares of common stock for one share of Series B Convertible Preferred Stock.

For 2024, the board authorized the payment of each quarterly dividend of Series B Convertible Preferred shares, as Paid-In-Kind shares (“PIK”) to be paid immediately following the end of the quarter. For the year ended December 31, 2023, we issued 62,899 shares with a value of \$629,007. During 2024, no cash was used to pay dividends on Series B preferred shares.

On October 11, 2024, we completed a significant equity restructuring transaction, eliminating our Series B, 3.5% Convertible Preferred Stock. See Note 14.

NOTE 6 – COMMON STOCK

During 2024, we issued shares of our Common Stock in lieu of cash payments for salaries, fees or incentives to various officers and board members, including our CEO, as noted in the Statement of Stockholders’ Deficit. Common stock was also issued on October 11, 2024, when we completed a significant equity restructuring transaction, see Note 14.

NOTE 7 – LEASES

During 2024, we had one office lease, the location of our corporate offices. The corporate office lease was entered into on August 12, 2021, began on January 1, 2022 and expires on December 31, 2026, with initial monthly payments of \$6,922 with escalations. We also rent office space on a month-to-month basis in Santa Barbara, California, the location of our CEO for \$1,000 per month. In addition, we have a finance lease for miscellaneous small office equipment, which commenced in the fourth quarter of 2024 with an 84-month term and an original balance of \$71,622.

Lease Obligations	Operating Lease Obligations	Financing Lease Obligations	Total Lease Obligations
2026	\$ 93,492	\$ 19,080	\$ 112,572
2027	-	19,080	19,080
2028	-	19,080	19,080
Thereafter	-	14,310	14,310
Total undiscounted lease payments	93,492	71,550	165,042
Less: Amount representing interest	4,308	15,110	19,418
Total Operating & Financing lease liabilities	89,184	56,440	145,624
Current lease liabilities as of December 31, 2025	89,184	13,054	102,238
Long-term lease liabilities as of December 31, 2025	\$ -	\$ 43,386	\$ 43,386

We have elected the short-term lease recognition exemption for all leases with an original term of 12 months or less. This means, for those leases that qualify, we will not recognize rights of use (“ROU”) assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases. We elected the practical expedient to not separate lease and non-lease components for all of our finance leases. For our real estate operating leases, we have only considered the fixed portion of our lease payment commitment and have excluded the variable components from the capitalized ROU and lease liability.

The amounts are as follows:

	Year ended December 31,	
	2025	2024
Operating lease expense	\$ 119,658	\$ 161,858
Financing lease expense	21,303	17,567
Short Term - field	6,000	6,000
Total lease expense	\$ 146,961	\$ 185,425

The following tables summarized the operating and financing lease obligations.

	Debit/Credit		
	Financing Leases	Operating Leases	Total
Right of Use Asset - Leases	\$ 54,655	\$ 89,184	\$ 143,839
Leases - Current	(9,725)	(89,184)	(98,909)
Leases - Non-current	(44,930)	-	(44,930)

Our two office leases do not contain implicit interest rates that can be readily determined. As a result, we used the best estimate of our incremental borrowing rate. At December 31, 2025 and 2024 the weighted average annual discount rate for our operating leases was 4.83% and the weighted average remaining term was 3 and 4 years, respectively. The weighted average annual discount rate for our finance lease was 11.91% for 2025 and 2024, and the weighted average remaining term was 6 and 7 years.

NOTE 8 – RELATED-PARTY TRANSACTIONS

At December 31, 2025, and 2024, we had a receivable balance of \$22,266 and \$22,226 respectively, due from Stephen Hosmer, a director and corporate secretary, for normal lease operating expenses, recorded in Other Receivables, net.

At December 31, 2025 and 2024, we had payables of \$23,087 and \$23,087, respectively, due to RMX and its subsidiary, Matrix Oil Corporation, related to certain lease operating expenses for wells operated by RMX, included in accounts payable and accrued expenses on our Consolidated Balance Sheets.. For the same periods, we also had prepaid expenses and other current assets, and deferred drilling obligations with RMX of \$710,590 and \$556,019, respectively. During 2025 and 2024, RMX operated various oil wells we have interests in, from which we received revenues of approximately \$236,900 and \$372,028 respectively, and incurred lease operating costs of approximately \$129,450 and \$158,664 respectively. At December 31, 2025 and 2024, we had a total revenue receivables of \$122,262 and \$108,344, respectively, due from RMX and its subsidiary, Matrix Oil Corporation.

We had outstanding accrued unpaid guaranteed payments for unpaid salary due to a certain Matrix employee for periods predating joining our company. At December 31, 2025 and 2024, the balance due was \$90,000 which is included in the Noncurrent Liabilities on our Consolidated Balance Sheets. At December 31, 2025 and 2024, Royale also had accrued unpaid liabilities of \$12,386 due to a certain former Matrix employee for periods predating his employment.

Michael McCaskey, Jeffery Kerns, and Stephen Hosmer, current directors, each provide services as directed and at our discretion directly or through an entity controlled by them. The following table sets amounts paid to entities owned or controlled by these individuals:

	2025	2024
Michael McCaskey	\$ 60,000	\$ 60,000
Jeffery Kerns	-	4,726
Stephen Hosmer	83,873	79,448

The following table sets amounts owed to entities owned or controlled by these individuals at December 31, reflected in Accounts Payable and Accrued Expenses on the Consolidated Balance Sheet.

	2025	2024
Michael McCaskey	\$ 21,455	\$ 21,455
Jeffery Kerns	26,844	26,844
Stephen Hosmer	14,783	11,400

On February 7, 2024 the board of directors approved a debt facility of up to \$3 million. On February 9, 2024, Royale Energy, Inc. entered into a Secured Term Loan Note with Walou Investments, LP, a Texas limited partnership, which is under the direct and indirect control of Johnny Jordan, the Company’s Chief Executive Officer and a member of the Company’s board of directors. In addition, Mr. Jordan is the beneficial owner of common stock. The initial loan to the Company was \$1,400,000 which was received on February 9, 2024. The outstanding principal balance of the loan has an annual interest rate of 18.00%. On November 1, 2024 the maturity was extended from August 1, 2025 to January 1, 2026. Subsequently, on August 29, 2025, the loan was further extended to April 1, 2027, and the Company executed an additional advance of \$500,000 on the loan, increasing the total outstanding principal balance to \$1,900,000. Effective September 1, 2025, the interest rate on the outstanding principal was reduced from 18.0% to 15.0% per annum.

NOTE 9 – STOCK COMPENSATION PLAN

There were no stock options issued for compensation during 2025 and 2024.

NOTE 10 – SIMPLE IRA PLAN

In April 1998, we established a Simple IRA plan covering all employees. We will contribute a matching contribution to each eligible employee’s Simple IRA equal to the employee’s salary reduction contributions up to a limit of 3% of the employee’s compensation for the year. The employer contribution for the years ending December 31, 2025 and 2024, were \$30,333 and \$28,653 respectively.

NOTE 11 – ENVIRONMENTAL MATTERS

We have established procedures for the continuing evaluation of our operations to identify potential environmental exposures and ensure compliance with regulatory policies and procedures. Management monitors these laws and regulations and periodically assesses the propriety of our operational and accounting policies related to environmental issues. The nature of our business requires routine day-to-day compliance with environmental laws and regulations. We incurred no material environmental investigation, compliance and remediation costs in 2025 or 2024.

We are unable to predict whether our future operations will be materially affected by these laws and regulations. We believe that legislation and regulations relating to environmental protection will not materially affect our results of operations.

NOTE 12 – CONCENTRATIONS

We bid our gas sales on a month-to-month basis and generally sell to a single customer without commitment to future gas sales to any particular customer. For both years presented we sold approximately 36% of our yearly natural gas production to one customer on a month-to-month basis. Since we are able to sell our natural gas to other readily available customers, we believe the loss of any one customer would not have an adverse effect on our overall sales operations.

We maintain cash in depository institutions that are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution for our interest-bearing accounts in the years ended December 31, 2025, and 2024. At December 31, 2025 and 2024, cash in banks exceeded the FDIC limits by approximately \$8.0 million and \$7.6 million, respectively. We have not experienced any losses on deposits.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

We may become involved from time to time in litigation on various matters, which are routine to the conduct of our business. We believe that none of these actions, individually or in the aggregate, will have a material adverse effect on our financial position or results of operations, though any adverse decision in these cases or the costs of defending or settling such claims could have a material effect on our business.

We sponsor turnkey drilling agreement arrangements in proved and unproved properties as a pooling of assets in a joint undertaking, whereby proceeds from participants are reported as Deferred Drilling Obligations. The contracts require the participants pay us the full contract price upon execution of the agreement. We typically begin the drilling activities within 12 months of funding and reach total depth between 10 and 30 days after drilling begins.

NOTE 14 – DEBT AND EQUITY RESTRUCTURING TRANSACTION

On October 11, 2024, we completed a significant equity restructuring transaction, eliminating our Series B, 3.5% Convertible Preferred Stock and simplifying our capital structure. The transaction was executed through a combination of common stock issuance, warrants, and senior promissory notes in exchange for the retirement of all outstanding Series B Preferred Shares as of June 30, 2024. The preferred holders waived the payment of any unpaid dividends.

The restructuring involved the exchange and extinguishment of 2,466,455 shares of Series B Preferred Stock, which carried an aggregate liquidation preference of \$24.7 million. The exchange was structured as follows:

1. 90% Conversion to Common Stock – Former holders of the Series B Preferred Stock received 22,198,095 shares of Royale common stock at an exchange ratio of 10 shares of common stock for each share of Series B Preferred Stock.
2. 10% Conversion to Notes Payable – The remaining portion of the Series B Preferred Stock was exchanged for Senior Unsecured Promissory Notes, totaling \$1.85 million. These notes bear an interest rate of 0% until December 31, 2025, increasing to 5% through 2027 and 8% through June 30, 2029, when all principal and interest is due.
3. Issuance of Warrants – As part of the exchange, Royale issued 25 million warrants with an exercise price of \$0.10 per share, expiring on June 30, 2029. The fair value of the warrants was determined to be \$959,637 using a Black-Scholes-Merton model.
4. Transfer of Additional Assets – The Company transferred a 0.5% overriding royalty interest (ORRI) in an Alaskan property and three parcels of Bellevue, Kern County real estate to a holding entity controlled by the Preferred Shareholders. The real estate was assigned a fair value of \$368,434, which was recognized as an inducement to convert the preferred shares.
5. Settlement of Historical Liabilities – Royale also settled approximately \$3 million in pre-merger obligations by issuing 2,508,509 shares common stock and promissory notes for \$278,724 on the same terms stated above.

The transaction was accounted for as an extinguishment of equity in accordance with ASC 470-50 and ASC 260-10-S99-2, as it represented a fundamental change in the structure and rights of the preferred stockholders. No gain or loss was recognized on the conversion of Series B Preferred Stock, as it was deemed to be an equity transaction per authoritative guidance. However, the issuance of warrants and asset transfers was treated as an inducement expense. The excess of the fair value of the warrants and assets transferred over the accrued dividend forgiven totaling \$674,341 was treated as inducement. The inducement was accounted for as an equity transaction and increases the net loss attributable to common shareholders in the Loss Per Share computation in Note 1.

The Company concurrently settled approximately \$3.47 million of accrued liabilities and unpaid guaranteed payments through the issuance of common stock and additional promissory notes valued at fair market rates. The liabilities extinguished included obligations associated with prior merger activity and were held primarily by related parties. The exchange of these liabilities was accounted for as a capital transaction with no gain or loss recognized on extinguishment, in accordance with guidance in ASC 470-50. The fair value of the new instruments issued was allocated between notes payable, common stock, and additional paid-in capital.

NOTE 15 – NOTES PAYABLE

Walou Note

On February 7, 2024, the board of directors of the Company approved a related-party debt facility of up to \$3 million. On February 9, 2024, the Company entered into a Secured Term Loan Note with Walou Investments, LP, a Texas limited partnership under the control of Johnny Jordan, the Company’s Chief Executive Officer and a member of the Company’s board of directors. Mr. Jordan is also the beneficial owner of approximately 29.2% of the Company’s issued and outstanding common stock. The initial advance to the Company was \$1,400,000 on February 9, 2024.

The loan originally bore interest at 18.0% per annum, with monthly interest-only payments beginning March 1, 2024. The loan is secured by a deed of trust recorded in Ector County, Texas, covering certain of the Company’s oil and gas assets located in Ector County.

On November 1, 2024, the maturity date of the loan was extended from August 1, 2025 to January 1, 2026. Subsequently, on August 29, 2025, the loan was further extended to April 1, 2027, and the Company executed an additional advance of \$500,000 on the loan, increasing the total outstanding principal balance to \$1,900,000. Effective September 1, 2025, the interest rate on the outstanding principal was reduced from 18.0% to 15.0% per annum.

Except as modified by the amendments described above, all other original terms and conditions of the Secured Term Loan Note remain in full force and effect at December 31, 2025.

Senior Unsecured Promissory Notes

On December 31, 2025 the outstanding balance of the Senior Unsecured Promissory Notes was \$2,221,112 and is further discussed in Note 14 – Debt and Equity Restructuring Transaction. The carrying value and fair value is further discussed in note 1.

NOTE 16 – SEGMENT REPORTING

The Company has one reportable segment, which encompasses the ownership and investment in onshore oil and natural gas properties in the United States and turnkey drilling programs. The segment’s revenues are derived from the Company’s interests in the sales of crude oil, natural gas, and NGL production.

The Company evaluates performance based on consolidated net income (loss), as reported in the consolidated statement of operations.. The Company’s chief executive officer, chief operating officer, and chief financial officer together function as the chief operating decision maker (“CODM”) and manage the Company’s business activities as a single operating segment.

The accounting policies of the one reportable segment are identical to those described for the consolidated Company. The CODM uses income (loss), as reported in the consolidated statement of operations, to measure segment profitability, assess performance, and manage strategic capital resource allocations. The measure of segment assets is reported as “Total assets” on the consolidated balance sheets. The significant expense categories regularly provided to and reviewed by the CODM are those presented in the consolidated statements of operations.

NOTE 17 – SUBSEQUENT EVENTS

On March 1, 2026, the Company completed the purchase of 8 gross (0.14 net) wells for \$200,000. Other than as disclosed above, the Company has determined that no events or transactions have occurred subsequent to December 31, 2025 that require recognition or disclosure in these consolidated financial statements.

NOTE 18 – SUPPLEMENTAL INFORMATION ABOUT OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

The following estimates of proved oil and gas reserves, both developed and undeveloped, represent interest we own, which are located solely in the United States. Proved reserves represent estimated quantities of crude oil and natural gas which geological and engineering data demonstrate to be reasonably certain to be recoverable in the future from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells, with existing equipment and operating methods. Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells for which relatively major expenditures are required for completion.

Disclosures of oil and gas reserves, which follow, are based on estimates prepared by independent petroleum engineering consultant Netherland, Sewell & Associates, Inc. The net reserve value of our proved developed and undeveloped reserves was approximately \$20.5 million at December 31, 2025, based on the average Henry Hub natural gas price spot price of \$3.387 per MCF and for oil volumes, the average West Texas Intermediate price of \$66.01 per barrel as applied on a field-by-field basis. Netherland, Sewell & Associates, Inc. provided reserve estimates for our California, Texas, and Oklahoma properties. Such estimates are subject to numerous uncertainties inherent in the estimation of quantities of proved reserves and in the projection of future rates of production and the timing of development expenditures. These estimates do not include probable or possible reserves.

The technical persons responsible for preparing the reserves estimates presented in the report of Netherland, Sewell & Associates, Inc., meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. Netherland, Sewell & Associates, Inc. is a firm of independent petroleum engineers, geologists, geophysicists, and petrophysicists; and do not own an interest in our properties and are not employed on a contingent basis. All activities and reports performed and completed by Netherland, Sewell & Associates, Inc. with regards to our reserve valuation estimates are reviewed by our management.

These estimates are furnished and calculated in accordance with requirements of the FASB and the SEC. Because of unpredictable variances in expenses and capital forecasts, crude oil and natural gas price changes, and the fact that the bases for such estimates vary significantly, management believes the usefulness of these projections is limited. Estimates of future net cash flows presented do not represent our management’s assessment of future profitability or future cash flows. Management’s investment and operating decisions are based upon reserve estimates that include proved reserves prescribed by the SEC as well as probable reserves, and upon different price and cost assumptions from those used here.

It should be recognized that applying current costs and prices and a 10 percent standard discount rate does not convey absolute value. The discounted amounts arrived at are only one measure of the value of proved reserves.

Changes in Estimated Reserve Quantities

Proved Oil and Gas Reserve Quantities

The Company's proved reserves and changes in proved reserves are as follows:

	Crude Oil (Bbls)	Natural Gas (Mcf)	Total Proved Reserves (Boe)
Proved reserves:			
December 31, 2023	217,780	473,540	296,703
Extensions and discoveries	15,043	31,511	20,295
Revisions of previous estimates	32,490	4,115	33,176
Purchases of reserves in place	-	-	-
Production	(26,573)	(116,406)	(45,974)
December 31, 2024	238,740	392,760	304,200
Extensions and discoveries	248,005	746,679	372,452
Revisions of previous estimates	107,313	688,044	221,987
Purchases of reserves in place	79,022	105,496	96,605
Production	(25,980)	(117,219)	(45,517)
December 31, 2025	647,100	1,815,760	949,727
Proved developed producing reserves:			
December 31, 2024	132,600	199,800	165,900
December 1, 2025	199,000	569,500	293,917
Proved developed non-producing reserves:			
December 31, 2024	19,900	38,500	26,350
December 1, 2025	18,700	32,900	24,183
Proved undeveloped reserves:			
December 31, 2024	86,240	154,460	111,950
December 1, 2025	429,400	1,213,360	631,627
Total proved reserves:			
December 31, 2024	238,740	392,760	304,200
December 1, 2025	647,100	1,815,760	949,727

Proved oil and gas reserves are generally those quantities of crude oil, NGLs and natural gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible in future years from known reservoirs under existing economic conditions, operating methods and government regulations. Proved developed reserves include reserves that can be expected to be produced through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well. Proved undeveloped reserves include reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Proved reserve quantities at December 31, 2024, and 2025 and the related discounted future net cash flows before income taxes are based on estimates prepared by Netherland, Sewell & Associates, Inc. Such estimates have been prepared in accordance with guidelines established by the SEC. All the Company’s proved reserves are attributable to properties within the United States.

Standardized Measure

The standardized measure of discounted future net cash flows relating to proved reserves is as follows:

	December 31,	
	2025	2024
Future cash inflows	\$ 43,694,600	\$ 17,957,800
Future production costs	(17,820,400)	(6,885,000)
Future development costs	(5,411,900)	(34,600)
Future income taxes (1)	-	-
Future net cash flows	20,462,300	11,038,200
Less 10% annual discount to reflect timing of cash flows	(9,286,200)	(4,689,500)
Standardized measure of discounted future net cash flows	11,176,100	6,348,700

(1) Future income taxes in the calculation of the standardized measure of discounted future net cash flows were zero as of December 31, 2024, and 2025, as the historical tax basis of proved oil and gas properties, net operating loss carryforwards, and future tax deductions exceeded the undiscounted future net cash flows before income taxes of the Company’s proved oil and gas reserves as of December 31, 2024, and 2025.

Proved reserve estimates and future cash flows are based on the average realized prices for sales of crude oil, NGLs and natural gas on the first calendar day of each month during the year. The following average realized prices were used in the calculation of proved reserves and the standardized measure of discounted future net cash flows.

	December 31,	
	2025	2024
Crude oil (\$/Bbl)	\$ 61.92	\$ 72.01
Natural gas (\$/Mcf)	\$ 2.00	\$ 1.95

Future operating and development costs are computed primarily by the Company’s petroleum engineers by estimating the expenditures to be incurred in developing and producing the Company’s proved reserves at the end of the year, based on current costs and assuming continuation of existing economic conditions. A discount factor of 10% was used to reflect the timing of future net cash flows. The standardized measure of discounted future net cash flows is not intended to represent the replacement cost or fair value of the Company’s oil and gas properties. An estimate of fair value would also take into account, among other things, the recovery of reserves not presently classified as proved, anticipated future changes in prices and costs, and a discount factor more representative of the time value of money and the risks inherent in proved reserve estimates.

	December 31,	
	2025	2024
Standardized measure at beginning of year	\$ 6,348,700	\$ 6,503,720
Revisions to reserves proved in prior years:		
Net change in sales prices and production costs related to future production	(2,084,125)	(102,367)
Net change in estimated future development costs	(4,458,464)	(34,600)
Net change due to revisions in quantity estimates	3,216,276	900,932
Accretion of discount	634,870	650,372
Changes in production rates (timing) and other	191,993	(143,080)
Total revisions to reserves proved in prior years	(2,499,450)	1,271,257
Net change due to extensions and discoveries, net of estimated future development and production costs	6,849,699	448,423
Net change due to purchases of reserves in place	2,090,951	-
Sales of crude oil, NGLs and natural gas produced, net of production costs	(1,613,800)	(1,874,700)
Net change in standardized measure of discounted future net cash flows	4,827,400	(155,020)
Standardized measure at end of year	\$ 11,176,100	\$ 6,348,700

The following sets forth costs incurred for oil and gas property acquisition and development activities, whether capitalized or expensed at December 31:

	Year ended December 31,	
	2025	2024
Acquisition - Proved	\$ 1,508,167	\$ -
Acquisition - Unproved	-	-
Development	1,433,352	4,955,045
Exploration	-	-
Total Costs	\$ 2,941,519	\$ 4,955,045

Results of Operations from Oil and Gas Producing and Exploration Activities

The results of operations from oil and gas producing and exploration activities (excluding corporate overhead and interest costs) are as follows:

	Year ended December 31,	
	2025	2024
Oil and gas sales	\$ 1,926,442	\$ 2,246,073
Production related costs (Lease Operating)	(1,396,710)	(2,065,005)
Impairment	(27,250)	(400,719)
Depreciation, depletion, amortization, and accretion	(259,438)	(308,524)
Results of operations from producing and exploration activities	\$ 243,044	\$ (528,175)
Income Taxes (Benefit)	-	-
Net Results	\$ 243,044	\$ (528,175)

ARTICLES OF INCORPORATION
of
ROYALE ENERGY HOLDINGS, INC.

CERTIFICATE OF INCORPORATION

OF

ROYALE ENERGY HOLDINGS, INC.

A Delaware Corporation

Article 1

The name of the corporation is Royale Energy Holdings, Inc.

Article 2

The address of the corporation’s registered office in the State of Delaware is 1675 South State Street, Suite B, Dover, Delaware 19901. The name of its registered agent at such address is Capitol Services, Inc.

Article 3

The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

Article 4

Section 1. Authorized Capital Stock.

This corporation is authorized to issue two classes of Capital Stock, which shall be known as Common Stock and Preferred Stock. The total number of shares of Common Stock which this corporation is authorized to issue is 280,000,000, \$0.001 par value per share, and the total number of Preferred Stock this corporation is authorized to issue is 10,000,000, \$0.001 par value per share.

Section 2. Designation of Preferred Stock.

The board of directors of the corporation is authorized, subject to the limitations prescribed by law, by resolution or resolutions, to provide for the issuance of the shares of Preferred Stock in one or more series, and, by filing a certificate pursuant to the applicable law of the State of Delaware (hereinafter called a “*Certificate of Designation*”), to establish from time to time the number of shares to be included in each such series, and to determine, fix and alter the rights, preference, privileges and restrictions granted to or imposed upon any wholly unissued series of shares of Preferred Stock to increase or decrease (but not below the number of shares of each such series then outstanding) the number of shares of any such series subsequent to the issue of shares of that series. The authority of the board of directors with respect to each series shall include, but not be limited to, the designation or fixing of the following:

The designation of the series, which may be by distinguishing number, letter or title;

(a) The number of shares of the series, which number the board of directors may thereafter (except where otherwise provided in the Certificate of Designation) increase or decrease (but not below the number of shares thereof then outstanding);

(b) The amounts payable on, and the preferences, if any, of shares of the series in respect of dividends, the relation which such dividends shall bear to the dividends payable on any other class or classes or of any other series of stock, and whether such dividends, if any, shall be cumulative or noncumulative;

(c) The redemption rights and price or prices, if any, for the shares of the series;

(d) The terms and amount of any sinking fund provided for the purchases or redemption of shares of the series;

(e) The amounts payable on, and the preferences, if any, of shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the corporation;

(f) Whether the shares of the series shall be convertible into or exchangeable for shares of any other class or series, or any other security, of the corporation or any other corporation, and if so, the specification of such other class or series or such other security, the conversion or exchange price or prices or rate or rates, any adjustments thereof, the date or dates at which such shares shall be convertible or exchangeable and all other terms and conditions upon which such conversion or exchange may be made;

(g) Restrictions on the issuance of shares of the same series or of any other series; and

(h) The voting rights, if any, of the holders of shares of the series.

Article 5

The name and mailing address of the incorporator is Lee Polson, 720 Brazos Street, Suite 700, Austin, Texas 78701.

Article 6

The number of directors of this corporation shall be fixed from time to time by the bylaws or amendment thereof adopted by the board of directors. The number of initial directors is one, and the name and mailing addresses of the person to serve as initial director until the first annual meeting of stockholders or until his successors are elected and qualified is Jonathan Gregory, 1870 Cordell Court, Suite 210, El Cajon, California 92020.

Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

Article 7

Special meetings of the stockholders may be called only by (i) the board of directors pursuant to a resolution adopted by a majority of the Board; (ii) the chairperson of the board of directors; (iii) the chief executive officer of the Corporation; (iv) the president of the Corporation (in the absence of a chief executive officer); or (v) the secretary of the Corporation whenever requested in writing to do so by holders of at least twenty-five percent (25%) of the voting power of the issued and outstanding shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class, but a special meeting may not be called by any other person or persons.

Article 8

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the board of directors is expressly authorized and empowered, in the manner provided in the bylaws of this corporation, to adopt, amend or repeal the bylaws of the corporation in any respect not inconsistent with the laws of the State of Delaware or this Certificate of Incorporation; provided, however, that the fact that such power has been conferred upon the directors shall not divest the stockholders of the power and authority, nor limit the power of stockholders to adopt, amend or repeal bylaws.

Article 9

A director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director’s duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is amended after the filing of the Certificate of Incorporation of which this Article is a part to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended. The corporation shall be obligated to indemnify its officers and directors against any and all judgments, penalties (including excise and similar taxes), fines, settlements and reasonable expenses incurred by that person to the fullest extent permitted by Delaware law. Any repeal or modification of the foregoing paragraph by the stockholders of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

Article 10

The corporation shall indemnify, advance expenses, and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person (a “**Covered Person**”) who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a “**Proceeding**”), by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director or officer of the corporation or, while a director or officer of the corporation, is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys’ fees) reasonably incurred by such Covered Person. Notwithstanding the preceding sentence, except for claims for indemnification (following the final disposition of such Proceeding) or advancement of expenses not paid in full, the corporation shall be required to indemnify a Covered Person in connection with a Proceeding (or part thereof) commenced by such Covered Person only if the commencement of such Proceeding (or part thereof) by the Covered Person was authorized in the specific case by the board of directors of the Corporation. Any amendment, repeal or modification of this Article shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expenses, liability or loss under the General Corporation Law of the State of Delaware.

Any repeal or modification of the foregoing provisions of this Article shall not adversely affect any right or protection hereunder of any Covered Person in respect of any act or omission occurring prior to the time of such repeal or modification.

Article 11

The corporation shall have the right, subject to any express provisions or restrictions contained in this Certificate of Incorporation or the bylaws, from time to time, to amend the Certificate of Incorporation or any provision thereof in any manner now or hereafter provided by law, and all rights and powers of any kind conferred upon a director or stockholder of the corporation by the Certificate of Incorporation or any amendment thereof are conferred subject to such right.

Article 11

Unless the corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the corporation, (ii) any action asserting a claim for breach of fiduciary duty owed by any director, officer, employee or agent of the corporation to the corporation or to the corporation’s stockholders, (iii) any action asserting a claim arising pursuant to any provision of the General Corporation Law of the State of Delaware, the Certificate of Incorporation or the bylaws or (iv) any action asserting a claim governed by the internal affairs doctrine, in each case subject to said Court of Chancery having personal jurisdiction over the indispensable parties name as defendants therein.

The undersigned incorporator hereby acknowledges that the foregoing Certificate of Incorporation is his act and deed on this 22nd day of November, 2016.

/s/ Lee Polson
Lee Polson, Incorporator

**CONFORMED BYLAWS OF
ROYALE ENERGY, INC., A DELAWARE CORPORATION**
Containing All Amendments Through June 30, 2018

PREAMBLE

These bylaws are subject to, and governed by, the General Corporation Law of the State of Delaware (the “*Delaware General Corporation Law*”) and the certificate of incorporation of Royale Energy Holdings, Inc., a Delaware corporation (the “*corporation*”). In the event of a direct conflict between the provisions of these bylaws and the mandatory provisions of the Delaware General Corporation Law or the provisions of the certificate of incorporation of the corporation, such provisions of the Delaware General Corporation Law or the certificate of incorporation of the corporation, as the case may be, will be controlling.

ARTICLE I. OFFICES

- 1.1 Registered Office and Agent.** The registered office and registered agent of the corporation shall be as designated from time to time by the appropriate filing by the corporation in the office of the Secretary of State of the State of Delaware. If the office is located outside this state, and the corporation has one or more business offices in this state, the board of directors shall likewise fix and designate a principal business office in the State of Delaware.
- 1.2 Other Offices.** The corporation may also have offices at such other places, both within and without the State of Delaware, as the board of directors may from time to time determine or as the business of the corporation may require.

ARTICLE II. MEETINGS OF STOCKHOLDERS

- 2.1 Annual Meeting.** An annual meeting of stockholders of the corporation shall be held each calendar year on such date and at such time as shall be designated from time to time by the board of directors and stated in the notice of the meeting or in a duly executed waiver of notice of such meeting. At such meeting, the stockholders shall elect directors and transact such other business as may properly be brought before the meeting.
- 2.2 Special Meeting.** A special meeting of the stockholders may be called at any time by (A) the board of directors, (B) the chairperson of the board of directors, (C) the chief executive officer of the corporation, (D) the president of the corporation (in the absence of a chief executive officer), or (E) by the secretary of the corporation whenever requested in writing to do so by holders of at least twenty-five percent (25%) of the voting power of the issued and outstanding shares of the corporation entitled to vote generally in the election of directors, voting together as a single class, or as otherwise provided by the certificate of incorporation of the corporation. A special meeting shall be held on such date and at such time as shall be designated by the person(s) calling the meeting and stated in the notice of the meeting or in a duly executed waiver of notice of such meeting. Only such business shall be transacted at a special meeting as may be stated or indicated in the notice of such meeting or in a duly executed waiver of notice of such meeting

2.3 Failure to Call Annual Meeting. Failure to hold the annual meeting at the designated time shall not affect the otherwise valid acts or cause a forfeiture or dissolution of the corporation. In the event the board of directors fails to call the annual meeting or to take action by written consent to elect directors in lieu of an annual meeting for a period of 13 months after the corporation's last annual meeting or action by written consent to elect directors in lieu of an annual meeting, any shareholder may make demand that such meeting be held within a reasonable time. Such demand shall be made in writing and sent by certified mail directed to any officer of the corporation

2.4 Place of Meetings. Meetings of the stockholders shall be held at any place within or without the State of Delaware designated by the board of directors. In absence of any such designation, meetings of stockholders shall be held at the principal office of the corporation. The board of directors may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the Delaware General Corporation Law.

2.5 Advance Notice Procedures.

(a) *Advance Notice of Stockholder Business.* At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be brought: (A) pursuant to the corporation's proxy materials with respect to such meeting, (B) by or at the direction of the board of directors, or (C) by a stockholder of the corporation who (1) is a stockholder of record at the time of the giving of the notice required by this Section 2.5(a) and on the record date for the determination of stockholders entitled to vote at the annual meeting and (2) has timely complied in proper written form with the notice procedures set forth in this Section 2.5(a). In addition, for business to be properly brought before an annual meeting by a stockholder, such business must be a proper matter for stockholder action pursuant to these bylaws and applicable law. For the avoidance of doubt, except for proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, or any successor thereto (the "**Exchange Act**"), and the regulations thereunder (or any successor rule and in any case as so amended), clause (C) above shall be the exclusive means for a stockholder to bring business before an annual meeting of stockholders.

(i) To comply with clause (C) of Section 2.5(a) above, a stockholder's notice must set forth all information required under this Section 2.5(a) and must be timely received by the secretary of the corporation. To be timely, a stockholder's notice must be received by the secretary at the principal executive offices of the corporation not later than the 45th day nor earlier than the 75th day before the one-year anniversary of the date on which the corporation first mailed its proxy materials or a notice of availability of proxy materials (whichever is earlier) for the preceding year's annual meeting; *provided, however*, that in the event that no annual meeting was held in the previous year or if the date of the annual meeting is advanced by more than thirty (30) days prior to or delayed by more than sixty (60) days after the one-year anniversary of the date of the previous year's annual meeting, then, for notice by the stockholder to be timely, it must be so received by the secretary not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of (i) the 90th day prior to such annual meeting, or (ii) the 10th day following the day on which Public Announcement (as defined below) of the date of such annual meeting is first made. In no event shall any adjournment, rescheduling or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described in this Section 2.5(a)(i). The term "**Public Announcement**" means disclosure made in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the U.S. Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(ii) To be in proper written form, a stockholder's notice to the secretary must set forth as to each matter of business the stockholder intends to bring before the annual meeting: (1) a brief description of the business intended to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (2) the name and address, as they appear on the corporation's books, of the stockholder proposing such business and any Stockholder Associated Person (as defined below), (3) the class and number of shares of the corporation that are held of record or are beneficially owned by the stockholder or any Stockholder Associated Person and any derivative positions held or beneficially held by the stockholder or any Stockholder Associated Person, (4) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of such stockholder or any Stockholder Associated Person with respect to any securities of the corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit from share price changes for, or to increase or decrease the voting power of, such stockholder or any Stockholder Associated Person with respect to any securities of the corporation, (5) any material interest of the stockholder or a Stockholder Associated Person in such business, and (6) a statement whether either such stockholder or any Stockholder Associated Person will deliver a proxy statement and form of proxy to holders of at least the percentage of the voting power of the corporation's voting shares required under applicable law to carry the proposal (such information provided and statements made as required by clauses (1) through (6), a "**Business Solicitation Statement**"). In addition, to be in proper written form, a stockholder's notice to the secretary must be supplemented not later than ten (10) days following the record date for the determination of stockholders entitled to notice of the meeting to disclose the information contained in clauses (3) and (4) above as of the record date. For purposes of this Section 2.5, a "**Stockholder Associated Person**" of any stockholder shall mean (i) any person controlling, directly or indirectly, or acting in concert with, such stockholder, (ii) any beneficial owner of shares of stock of the corporation owned of record or beneficially by such stockholder and on whose behalf the proposal or nomination, as the case may be, is being made, or (iii) any person controlling, controlled by or under common control with such person referred to in the preceding clauses (i) and (ii).

(iii) Without exception, no business shall be conducted at any annual meeting except in accordance with the provisions set forth in this Section 2.5(a) and, if applicable, Section 2.5(b). In addition, business proposed to be brought by a stockholder may not be brought before the annual meeting if such stockholder or a Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Business Solicitation Statement applicable to such business or if the Business Solicitation Statement applicable to such business contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairperson of the annual meeting shall, if the facts warrant, determine and declare at the annual meeting that business was not properly brought before the annual meeting and in accordance with the provisions of this Section 2.5(a), and, if the chairperson should so determine, he or she shall so declare at the annual meeting that any such business not properly brought before the annual meeting shall not be conducted.

(b) *Advance Notice of Director Nominations at Annual Meetings.* Notwithstanding anything in these bylaws to the contrary, only persons who are nominated in accordance with the procedures set forth in this Section 2.5(b) shall be eligible for election or re-election as directors at an annual meeting of stockholders. Nominations of persons for election to the board of directors of the corporation shall be made at an annual meeting of stockholders only (A) by or at the direction of the board of directors or (B) by a stockholder of the corporation who (1) was a stockholder of record at the time of the giving of the notice required by this Section 2.5(b) and on the record date for the determination of stockholders entitled to vote at the annual meeting and (2) has complied with the notice procedures set forth in this Section 2.5(b). In addition to any other applicable requirements, for a nomination to be made by a stockholder, the stockholder must have given timely notice thereof in proper written form to the secretary of the corporation.

(i) To comply with clause (B) of Section 2.5(b) above, a nomination to be made by a stockholder must set forth all information required under this Section 2.5(b) and must be received by the secretary of the corporation at the principal executive offices of the corporation at the time set forth in, and in accordance with, the final three sentences of Section 2.5(a)(i) above; provided additionally, however, that in the event that the number of directors to be elected to the board of directors is increased and there is no Public Announcement naming all of the nominees for director or specifying the size of the increased board made by the corporation at least ten (10) days before the last day a stockholder may deliver a notice of nomination pursuant to the foregoing provisions, a stockholder's notice required by this Section 2.5(b) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the secretary of the corporation at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such Public Announcement is first made by the corporation.

(ii) To be in proper written form, such stockholder's notice to the secretary must set forth:

(1) as to each person (a "**nominee**") whom the stockholder proposes to nominate for election or re-election as a director: (A) the name, age, business address and residence address of the nominee, (B) the principal occupation or employment of the nominee, (C) the class and number of shares of the corporation that are held of record or are beneficially owned by the nominee and any derivative positions held or beneficially held by the nominee, (D) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of the nominee with respect to any securities of the corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit of share price changes for, or to increase or decrease the voting power of the nominee, (E) a description of all arrangements or understandings between or among any of the stockholder, each nominee and/or any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder or relating to the nominee's potential service on the board of directors, (F) a written statement executed by the nominee acknowledging that as a director of the corporation, the nominee will owe a fiduciary duty under Delaware law with respect to the corporation and its stockholders, and (G) any other information relating to the nominee that would be required to be disclosed about such nominee if proxies were being solicited for the election of the nominee as a director, or that is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including without limitation the nominee's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected); and

(2) as to such stockholder giving notice, (A) the information required to be provided pursuant to clauses (2) through (5) of Section 2.5(a)(i) above, and the supplement referenced in the second sentence of Section 2.5(a)(ii) above (except that the references to “business” in such clauses shall instead refer to nominations of directors for purposes of this paragraph), and (B) a statement whether either such stockholder or Stockholder Associated Person will deliver a proxy statement and form of proxy to holders at least the percentage of the corporation’s voting shares reasonably believed by such stockholder or Stockholder Associated Person to be necessary to elect such nominee(s) (such information provided and statements made as required by clauses (A) and (B) above, a “**Nominee Solicitation Statement**”).

(iii) At the request of the board of directors, any person nominated by a stockholder for election as a director must furnish to the secretary of the corporation (1) that information required to be set forth in the stockholder’s notice of nomination of such person as a director as of a date subsequent to the date on which the notice of such person’s nomination was given and (2) such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as an independent director of the corporation or that could be material to a reasonable stockholder’s understanding of the independence, or lack thereof, of such nominee; in the absence of the furnishing of such information if requested, such stockholder’s nomination shall not be considered in proper form pursuant to this Section 2.5(b).

(iv) Without exception, no person shall be eligible for election or re-election as a director of the corporation at an annual meeting of stockholders unless nominated in accordance with the provisions set forth in this Section 2.5(b). In addition, a nominee shall not be eligible for election or re-election if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairperson of the annual meeting shall, if the facts warrant, determine and declare at the annual meeting that a nomination was not made in accordance with the provisions prescribed by these bylaws, and if the chairperson should so determine, he or she shall so declare at the annual meeting, and the defective nomination shall be disregarded.

(c) Advance Notice of Director Nominations for Special Meetings.

(i) For a special meeting of stockholders at which directors are to be elected pursuant to Section 2.2, nominations of persons for election to the board of directors shall be made only (1) by or at the direction of the board of directors or (2) by any stockholder of the corporation who (A) is a stockholder of record at the time of the giving of the notice required by this Section 2.5(c) and on the record date for the determination of stockholders entitled to vote at the special meeting and (B) delivers a timely written notice of the nomination to the secretary of the corporation that includes the information set forth in Sections 2.5(b)(ii) and (b)(iii) above. To be timely, such notice must be received by the secretary at the principal executive offices of the corporation not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which Public Announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. In no event shall any adjournment, rescheduling or postponement of a special meeting or the announcement thereof commence a new time period for the giving of a stockholder’s notice. A person shall not be eligible for election or re-election as a director at a special meeting unless the person is nominated (i) by or at the direction of the board of directors or (ii) by a stockholder in accordance with the notice procedures set forth in this Section 2.5(c). In addition, a nominee shall not be eligible for election or re-election if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading.

(ii) The chairperson of the special meeting shall, if the facts warrant, determine and declare at the meeting that a nomination or business was not made in accordance with the procedures prescribed by these bylaws, and if the chairperson should so determine, he or she shall so declare at the meeting, and the defective nomination or business shall be disregarded.

(d) *Other Requirements and Rights.* In addition to the foregoing provisions of this Section 2.5, a stockholder must also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.5, including, with respect to business such stockholder intends to bring before the annual meeting that involves a proposal that such stockholder requests to be included in the corporation's proxy statement, the requirements of Rule 14a-8 (or any successor provision) under the Exchange Act. Nothing in this Section 2.5 shall be deemed to affect any right of the corporation to omit a proposal from the corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act.

2.6 Notice. Notice of the place, if any, date, hour, the record date for determining the stockholders entitled to vote at the meeting (if such date is different from the record date for stockholders entitled to notice of the meeting) and means of remote communication, if any, of every meeting of stockholders shall be given by the corporation not less than ten (10) days nor more than sixty (60) days before the meeting (unless a different time is specified by law) to every stockholder entitled to vote at the meeting as of the record date for determining the stockholders entitled to notice of the meeting. Notices of special meetings shall also specify the purpose or purposes for which the meeting has been called. Except as otherwise provided herein or permitted by applicable law, notice to stockholders shall be in writing and delivered personally or mailed to the stockholders at their address appearing on the books of the corporation. Without limiting the manner by which notice otherwise may be given effectively to stockholders, notice of meetings may be given to stockholders by means of electronic transmission in accordance with applicable law. Notice of any meeting need not be given to any stockholder who shall, either before or after the meeting, submit a waiver of notice or who shall attend such meeting, except when the stockholder attends for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Any stockholder so waiving notice of the meeting shall be bound by the proceedings of the meeting in all respects as if due notice thereof had been given.

2.7 Voting List. At least ten (10) days before each meeting of stockholders, the Secretary or other officer of the corporation who has charge of the corporation's stock ledger, either directly or through another officer appointed by him or through a transfer agent appointed by the board of directors, shall prepare a complete list of stockholders entitled to vote thereat, arranged in alphabetical order and showing the address of each stockholder and number of shares registered in the name of each stockholder. For a period of ten (10) days prior to such meeting, such list shall be kept on file at a place within the city where the meeting is to be held, which place shall be specified in the notice of meeting or a duly executed waiver of notice of such meeting or, if not so specified, at the place where the meeting is to be held and shall be open to examination by any stockholder during ordinary business hours. Such list shall be produced at such meeting and kept at the meeting at all times during such meeting and may be inspected by any stockholder who is present.

2.8 Quorum. The holders of a majority of the outstanding shares entitled to vote on a matter, present in person or by proxy, shall constitute a quorum at any meeting of stockholders, except as otherwise provided by law, the certificate of incorporation of the corporation, or these bylaws.

2.9 Adjournment. At any meeting of stockholders, whether or not a quorum is present, the Chairman of the Board, or if such office has not been filled or if the Chairman of the Board is absent or otherwise unable to act, the Chief Executive Officer or President, may adjourn such meeting from time to time solely because of the absence of a quorum or for any other reason and may reconvene at the same or some other time, date and place, if any, or by means of remote communication. Unless otherwise determined by the board of directors, the Chairman of the Board, or if such office has not been filled or if the Chairman of the Board is absent or otherwise unable to act, the Chief Executive Officer or President, shall have the exclusive power and authority to recess or adjourn a stockholder meeting in his sole and absolute discretion. The stockholders present at a meeting shall not have the authority to adjourn the meeting. When any stockholders meeting is adjourned to another time or place, notice need not be given of the adjourned meeting, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than thirty (30) days from the date set for the original meeting. Notice of any adjourned meeting, if required, shall be given to each stockholder of record entitled to vote at the adjourned meeting in accordance with Section 2.6. At the adjourned meeting, the stockholders may transact any business that might have been transacted at the original meeting.

2.10 Required Vote; Withdrawal of Quorum. If a quorum is present, the affirmative vote of the majority of the shares present in person or represented by proxy at the meeting and entitled to vote on any matter (other than the election of directors) shall be the act of the stockholders, unless the vote of a greater number or voting by classes is required by the General Corporation Law of the State of Delaware or the certificate of incorporation. The stockholders present at a duly constituted meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

2.11 Method of Voting; Proxies. Except as otherwise provided in the certificate of incorporation of the corporation or bylaws, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders. Elections of directors need not be by written ballot. Any stockholder entitled to vote on any matter (other than the election of directors) may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal, but, if the stockholder fails to specify the number of shares such stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares such stockholder is entitled to vote. At any meeting of stockholders, every stockholder having the right to vote may vote either in person or by a proxy executed in writing by the stockholder or by his duly authorized attorney-in-fact. Each such proxy shall be filed with the Secretary of the corporation before or at the time of the meeting. No proxy shall be valid after three (3) years from the date of its execution, unless otherwise provided in the proxy. If no date is stated in a proxy, such proxy shall be presumed to have been executed on the date of the meeting at which it is to be voted. Each proxy shall be revocable unless expressly provided therein to be irrevocable and coupled with an interest sufficient in law to support an irrevocable power or unless otherwise made irrevocable by law.

2.12 Record Date. (a) For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders, or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion, or exchange of stock or for the purpose of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, for any such determination of stockholders, such date in any case to be not more than sixty (60) days and not less than ten (10) days prior to such meeting nor more than sixty (60) days prior to any other action. If no record date is fixed:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

(iii) A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

(b) In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the board of directors. If no record date has been fixed by the board of directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the board of directors is required by law or these bylaws, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office in the State of Delaware, principal place of business, or such officer or agent shall be by hand or by certified mail, return receipt requested. If no record date has been fixed by the board of directors and prior action by the board of directors is required by law or these bylaws, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the board of directors adopts the resolution taking such prior action.

2.13 Conduct of Meeting. The Chairman of the Board, if such office has been filled, or if the Chairman of the Board is absent or otherwise unable to act, the Chief Executive Officer or President, shall preside at all meetings of stockholders. The Secretary shall keep the records of each meeting of stockholders. In the absence or inability to act of any such officer, such officer's duties shall be performed by the officer given the authority to act for such absent or non-acting officer under these bylaws or by some person duly appointed at the meeting.

2.14 Inspectors. The board of directors may, in advance of any meeting of stockholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If any of the inspectors so appointed shall fail to appear or act, or if inspectors shall not have been appointed, the officer presiding over the meeting, in accordance with Section 2.13, may appoint one or more inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall determine the number of shares of capital stock of the corporation outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the validity and effect of proxies and shall receive votes, ballots, or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots, or consents, determine the results, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the officer presiding over the meeting, the inspectors shall make a report in writing of any challenge, request, or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as an inspector of an election of directors. Inspectors need not be stockholders.

ARTICLE III. DIRECTORS

3.1 Management. The business and property of the corporation shall be managed by the board of directors. Subject to the restrictions imposed by law, the certificate of incorporation of the corporation, or these bylaws, the board of directors may exercise all the powers of the corporation.

3.2 Number; Qualification; Election; Term. The number of directors which shall constitute the entire board of directors shall be not less than three (3) nor more than fifteen (15). The first board of directors shall consist of the number of directors named in the certificate of incorporation of the corporation or, if no directors are so named, shall consist of the number of directors elected by the incorporator(s) at an organizational meeting or by unanimous written consent in lieu thereof. Thereafter, within the limits above specified, the number of directors which shall constitute the entire board of directors shall be determined by resolution of the board of directors or by resolution of the stockholders at the annual meeting thereof or at a special meeting thereof called for that purpose. Except as otherwise required by law, the certificate of incorporation of the corporation or these bylaws, the directors shall be elected at an annual meeting of stockholders at which a quorum is present. Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote on the election of directors. Cumulative voting for Directors is not permitted. Each director so chosen shall hold office until the first annual meeting of stockholders held after his election and until his successor is elected and qualified or, if earlier, until his death, resignation, or removal from office. None of the directors need be a stockholder of the corporation or a resident of the State of Delaware. Each director must have attained the age of majority.

3.3 Change in Number. No decrease in the number of directors constituting the entire board of directors shall have the effect of shortening the term of any incumbent director.

3.4 Removal. Except as otherwise provided in the certificate of incorporation of the corporation or these bylaws, at any meeting of stockholders called expressly for that purpose, any director or the entire board of directors may be removed, with or without cause, by a vote of the holders of a majority of the shares then entitled to vote on the election of directors.

3.5 Vacancies. A vacancy or vacancies in the board of directors shall be deemed to exist in the case of the death, resignation or removal of any director, or if the board of directors by resolution declares vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony, or if the authorized number of directors be increased, or if the stockholders fail to elect the full authorized number of directors to be voted for at that meeting. Vacancies and newly-created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by the sole remaining director, and each director so chosen shall hold office until the first annual meeting of stockholders held after his election and until his successor is elected and qualified or, if earlier, until his death, resignation, or removal from office. If there are no directors in office, an election of directors may be held in the manner provided by statute. If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board of directors (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent (10%) of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly-created directorships or to replace the directors chosen by the directors then in office. Except as otherwise provided in these bylaws, when one or more directors resign from the board of directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in these bylaws with respect to the filling of other vacancies.

3.6 Meetings of Directors. Directors may hold their meetings and may have an office and keep the books of the corporation, except as otherwise provided by statute, in such place or places within or without the State of Delaware as the board of directors may from time to time determine or as shall be specified in the notice of such meeting or duly executed waiver of notice of such meeting.

3.7 Annual Meeting. Immediately following each annual meeting of stockholders, the newly elected board of directors shall hold a regular meeting for the purpose of organization and the transaction of other business. Notice of this meeting shall not be required.

3.8 Election of Officers. At the annual meeting of the board of directors, held after each annual meeting of stockholders at which a quorum shall be present, the board of directors shall elect the officers of the corporation.

3.9 Regular Meetings. Regular meetings of the board of directors shall be held at such times and places as shall be designated from time to time by resolution of the board of directors. Notice of such regular meetings shall not be required.

3.10 Special Meetings. Special meetings of the board of directors shall be held whenever called by the Chairman of the Board, the Chief Executive Officer, the President, the Secretary or at the request of any two directors.

3.11 Notice. Notice of each special meeting shall be hand delivered or sent by mail, telegram, telecopy, or electronic mail transmission to the last known address of each director at least three (3) days before the meeting. Oral notice may be substituted for such written notice if given not later than one (1) day before the meeting. Notice of any such meeting need not be given to any director who shall, either before or after the meeting, submit a signed waiver of notice or who shall attend such meeting without protesting, prior to or at its commencement, the lack of notice to him. Neither the business to be transacted at, nor the purpose of, any special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

3.12 Quorum; Majority Vote. At all meetings of the board of directors, a majority of the directors fixed in the manner provided in these bylaws shall constitute a quorum for the transaction of business. Unless the act of a greater number is required by law, the certificate of incorporation of the corporation, or these bylaws, the act of a majority of the directors present at a meeting at which a quorum is in attendance shall be the act of the board of directors. At any time that the certificate of incorporation of the corporation provides that directors elected by the holders of a class or series of stock shall have more or less than one vote per director on any matter, every reference in these bylaws to a majority or other proportion of directors shall refer to a majority or other proportion of the votes of such directors.

3.13 Adjournment. A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place. Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four (24) hours, in which case notice of such time and place shall be given prior to the time of the adjourned meeting, in the manner specified in Section 3.11, to the directors who were not present at the time of the adjournment.

3.14 Procedure. At meetings of the board of directors, business shall be transacted in such order as from time to time the board of directors may determine. The Chairman of the Board, if such office has been filled, or if the Chairman of the Board is absent or otherwise unable to act, the Chief Executive Officer or the President, shall preside at all meetings of the board of directors. In the absence or inability to act of either such officer, a chairman shall be chosen by the board of directors from among the directors present. The Secretary of the corporation shall act as the secretary of each meeting of the board of directors unless the board of directors appoints another person to act as secretary of the meeting. The board of directors shall keep regular minutes of its proceedings which shall be placed in the minute book of the corporation.

3.15 Presumption of Assent. A director of the corporation who is present at the meeting of the board of directors at which action on any corporate matter is taken shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof or shall forward any dissent by certified mail to the Secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

3.16 Compensation. The board of directors shall have the authority to fix the compensation, including fees and reimbursement of expenses, paid to directors for attendance at meetings of the board of directors or any committee thereof; provided, however, that nothing contained herein shall be construed to preclude any director from serving the corporation in any other capacity or receiving compensation therefor.

ARTICLE IV. COMMITTEES

4.1 Designation. The board of directors may, by resolution adopted by a majority of the entire board of directors, designate one or more committees to serve at the pleasure of the board of directors.

4.2 Number; Qualification; Term. Each committee shall consist of one or more directors appointed by resolution adopted by a majority of the entire board of directors. The number of committee members may be increased or decreased from time to time by resolution adopted by a majority of the entire board of directors. Each committee member shall serve as such until the earliest of (a) the expiration of his term as director, (b) his resignation as a committee member or as a director or (c) his removal as a committee member or as a director.

4.3 Authority. Each committee, to the extent expressly provided in the resolution establishing such committee, shall have and may exercise all of the authority of the board of directors in the management of the business and property of the corporation except to the extent expressly restricted by law, the certificate of incorporation of the corporation or these bylaws

4.4 Committee Changes. The board of directors shall have the power at any time to fill vacancies in, to change the membership of, and to discharge any committee.

4.5 Alternate Members of Committees. The board of directors may designate one or more directors as alternate members of any committee. Any such alternate member may replace any absent or disqualified member at any meeting of the committee. If no alternate committee members have been so appointed to a committee or each such alternate committee member is absent or disqualified, the member or members of such committee present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member.

4.6 Regular Meetings. Regular meetings of any committee may be held without notice at such time and place as may be designated from time to time by the committee and communicated to all members thereof.

4.7 Special Meetings. Special meetings of any committee may be held whenever called by any committee member. The committee member calling any special meeting shall cause notice of such special meeting, including therein the time and place of such special meeting, to be given to each committee member.

4.8 Notice. Notice of each special meeting of any committee shall be hand delivered or sent by mail, telegram, telecopy, or electronic mail transmission to the last known address of each committee member at least three (3) days before the meeting. Oral notice may be substituted for such written notice if given not later than one (1) day before the meeting. Notice of any such meeting need not be given to any committee member who shall, either before or after the meeting, submit a signed waiver of notice or who shall attend such meeting without protesting, prior to or at its commencement, the lack of notice to him. Neither the business to be transacted at, nor the purpose of, any special meeting need be specified in the notice or waiver of notice of such meeting.

4.9 Quorum; Majority Vote. At meetings of any committee, a majority of the number of members designated by the board of directors shall constitute a quorum for the transaction of business. A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place without notice other than announcement at the meeting. The act of a majority of the members present at any meeting at which a quorum is in attendance shall be the act of a committee, unless the act of a greater number is required by law, the certificate of incorporation of the corporation or these bylaws

4.10 Adjournment. A majority of the committee members present, whether or not constituting a quorum, may adjourn any meeting to another time and place without notice other than announcement at the meeting. Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four (24) hours, in which case notice of such time and place shall be given prior to the time of the adjourned meeting, in the manner specified in Section 4.8, to the committee members who were not present at the time of the adjournment

4.11 Minutes. Each committee shall cause minutes of its proceedings to be prepared and shall report the same to the board of directors upon the request of the board of directors. The minutes of the proceedings of each committee shall be delivered to the Secretary of the corporation for placement in the minute books of the corporation.

4.12 Compensation. Committee members may, by resolution of the board of directors, be allowed a fixed sum and expenses of attendance, if any, for attending any committee meetings or a stated salary.

4.13 Responsibility. The designation of any committee and the delegation of authority to it shall not operate to relieve the board of directors or any director of any responsibility imposed upon it or such director by law

ARTICLE V. NOTICE

5.1 Method. Whenever by statute, the certificate of incorporation of the corporation, or these bylaws, notice is required to be given to any directors, stockholder, or committee member and no provision is made as to how such notice shall be given. Personal notice shall not be required and any such notice may be given (a) in writing, by mail, postage prepaid, addressed to such director, stockholder, or committee member, director at his address as it appears on the books or (in the case of a stockholder) the stock transfer records of the corporation, or (b) by any other method permitted by law (including, but not limited to, overnight courier service, telegram, telex, or telefax). Any notice required or permitted to be given by mail shall be deemed to be delivered and given at the time when the same is deposited in the United States mail as aforesaid. Any notice required or permitted to be given by overnight courier service shall be deemed to be delivered and given at the time delivered to such service with all charges prepaid and addressed as aforesaid. Any notice required or permitted to be given by telegram, telex, or telefax shall be deemed to be delivered and given at the time transmitted with all charges prepaid and addressed as aforesaid.

5.2 Waiver. Whenever any notice is required to be given to any director, stockholder, or committee member of the corporation by statute, the certificate of incorporation of the corporation, or these bylaws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice. Attendance of a director, stockholder, or committee member at a meeting shall constitute a waiver of notice of such meeting, except where such person attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

ARTICLE VI. OFFICERS

6.1 Number; Titles; Term of Office. The officers of the corporation shall be a Chief Executive Officer, a Secretary, a Chief Financial Officer and such other officers as the board of directors may from time to time elect or appoint, including a Chairman of the Board, a President, one or more Vice Presidents (with each Vice President to have such descriptive title, if any, as the board of directors shall determine), one or more Assistant Secretaries, and one or more Assistant Treasurers. Each officer shall hold office (i) until his successor shall have been duly elected and qualified, (ii) until his death, or (iii) until he shall resign or shall have been removed in the manner hereinafter provided. Any three (3) or more offices may be held by the same person. None of the officers need be a stockholder or a director of the corporation or a resident of the State of Delaware.

6.2 Election of Officers. The officers of the corporation, except such officers as may be appointed in accordance with the following sentence, shall be chosen by the board of directors, and each shall serve at the pleasure of the Board, subject to the rights, if any, of an officer under any contract of employment. The board of directors may empower the Chief Executive Officer to appoint such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the bylaws or as the board of directors may from time to time determine.

6.3 Removal. Any officer or agent elected or appointed by the board of directors may be removed by the board of directors whenever in its judgment the best interest of the corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

6.4 Vacancies. Any vacancy occurring in any office of the corporation (by death, resignation, removal, or otherwise) may be filled by the board of directors.

6.5 Authority. Officers shall have such authority and perform such duties in the management of the corporation as are provided in these bylaws or as may be determined by resolution of the board of directors not inconsistent with these bylaws.

6.6 Compensation. The compensation, if any, of officers and agents shall be fixed from time to time by the board of directors; provided, however, that the board of directors may delegate the power to determine the compensation of any officer and agent (other than the officer to whom such power is delegated) to the Chairman of the Board, the Chief Executive Officer or President.

6.7 Chairman of the Board. The Chairman of the Board, if elected by the board of directors, shall have such powers and duties as may be prescribed by the board of directors. Such officer shall preside at all meetings of the stockholders and of the board of directors. Such officer may sign all certificates for shares of stock of the corporation.

6.8 Chief Executive Officer. Unless otherwise specified by the board of directors, the Chief Executive Officer shall also be the President of the corporation. The Chief Executive Officer shall have general executive charge, management, and control of the properties and operations of the corporation in the ordinary course of its business, with all such powers with respect to such properties and operations as may be reasonably incident to such responsibilities. If the board of directors has not elected a Chairman of the Board, or in the absence or inability to act of the Chairman of the Board, the Chief Executive Officer, shall exercise all of the power and discharge all of the duties of the Chairman of the Board. As between the corporation and third parties, any action taken by the Chief Executive Officer in the performance of the duties of the Chairman of the Board shall be conclusive evidence that there is not Chairman of the Board or that the Chairman of the Board is absent or unable to act.

6.9 President. If the office of President is established as an office separate from that of the office of Chief Executive Officer, the President shall have such duties and responsibilities as are assigned to him by the board of directors, the Chairman of the Board, or the Chief Executive Officer. In the absence or inability to act of the Chief Executive Officer, the President shall exercise all of the power and discharge all of the duties of the Chief Executive Officer. As between the corporation and third parties, any action taken by a President in the performance of the duties of the Chief Executive Officer shall be conclusive evidence of the absence or inability to act of the Chief Executive Officer at the time such action was taken.

6.10 Vice Presidents. Each Vice President shall have such powers and duties as may be assigned by the board of directors, the Chairman of the Board, the Chief Executive Officer, or the President, and (in order of their seniority as determined by the board of directors or, in the absence of such determination, as determined by the length of time they have held the office of Vice President) shall exercise the powers of the President (or Chief Executive Officer if those offices are held by the same person) during that officer's absence or inability to act. As between the corporation and third parties, any action taken by a Vice President in the performance of the duties of the President shall be conclusive evidence of the absence or inability to act of the President at the time such action was taken.

6.11 Chief Financial Officer. The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall be open at all reasonable times to inspection by any director. The Chief Financial Officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. The Chief Financial Officer shall disburse the funds of the corporation as may be ordered by the board of directors, and shall render to the Chief Executive Officer, the President and directors, whenever they request it, an account of all of transactions as Chief Financial Officer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the board of directors or the bylaws.

6.12 Assistant Treasurers. Each Assistant Treasurer shall have such powers and duties as may be assigned by the board of directors, the Chairman of the Board, the Chief Executive Officer, or the President. The Assistant Treasurers (in the order of their seniority as determined by the board of directors or, in the absence of such a determination, as determined by the length of time they have held the office of Assistant Treasurer) shall exercise the powers of the Chief Financial Officer during that officer's absence or inability to act.

6.13 Secretary. Except as otherwise provided in these bylaws, the Secretary shall keep the minutes of all meetings of the board of directors and of the stockholders in books provided for that purpose, and shall attend to the giving and service of all notices. The Secretary may sign with the Chairman of the Board, the Chief Executive Officer, or the President, in the name of the corporation, all contracts of the corporation and affix the seal of the corporation thereto. The Secretary may sign with the Chairman of the Board, the Chief Executive Officer, or the President all certificates for shares of stock of the corporation, and shall have charge of the certificate books, transfer books, and stock papers as the board of directors may direct, all of which shall at all reasonable times be open to inspection by any director upon application at the office of the corporation during business hours. The Secretary shall in general perform all duties incident to the office of the Secretary, subject to the control of the board of directors, the Chairman of the Board, the Chief Executive Officer, or the President.

6.14 Assistant Secretaries. Each Assistant Secretary shall have such powers and duties as may be assigned by the board of directors, the Chairman of the Board, the Chief Executive Officer, or the President. The Assistant Secretaries (in the order of their seniority as determined by the board of directors or, in the absence of such a determination, as determined by the length of time they have held the office of Assistant Secretary) shall exercise the powers of the Secretary during that officer's absence or inability to act.

ARTICLE VII. CERTIFICATES AND STOCKHOLDERS

7.1 Certificates for Shares, Stock Certificates; Uncertificated Shares. Notwithstanding any other provision of these Bylaws that refers to certificates evidencing shares of the Corporation's outstanding shares of capital stock, the board of directors may provide by resolution or resolutions that some or all of any or all classes or series of the Corporation's stock shall be uncertificated shares, and that shares of any class or series of the Corporation's stock may be evidenced by registration in the holder's name in uncertificated, book-entry form in accordance with the direct registration system approved by the United States Securities and Exchange Commission and by the principal securities exchange on which the stock of the Corporation may from time to time be traded, or as may be otherwise authorized by Section 158 of the Delaware General Corporation Law or any successor statute, as any of the foregoing may be approved from time to time by the board of directors. Every holder of uncertificated shares of the Corporation shall be entitled to receive a statement of holdings as evidence of share ownership.¹

7.2 Transfer Agents and Registrars. The board of directors may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or more registrars.

7.3 Replacement of Lost or Destroyed Certificates. The board of directors may direct a new certificate or certificates to be issued in place of a certificate or certificates theretofore issued by the corporation and alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate or certificates representing shares to be lost or destroyed. When authorizing such issue of a new certificate or certificates the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the corporation a bond with a surety or sureties satisfactory to the corporation in such sum as it may direct as indemnity against any claim, or expense resulting from a claim, that may be made against the corporation with respect to the certificate or certificates alleged to have been lost or

7.4 Transfer of Shares. Shares of stock of the corporation shall be transferable only on the books of the corporation by the holders thereof in person or by their duly authorized attorneys or legal representatives. Upon surrender to the corporation or the transfer agent of the corporation of a certificate representing shares duly endorsed or accompanied by proper evidence of succession, assignment, or authority to transfer, the corporation or its transfer agent shall issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction upon its books.

7.5 Registered Stockholders. The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

¹ Bylaw 7.1 amended December 13, 2018.

7.6 Regulations. The board of directors shall have the power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer, and registration or the replacement of certificates for shares of stock of the corporation.

7.7 Legends. The board of directors shall have the power and authority to provide that certificates representing shares of stock bear such legends as the board of directors deems appropriate to assure that the corporation does not become liable for violations of federal or state securities laws or other applicable law.

ARTICLE VIII. MISCELLANEOUS PROVISIONS

8.1 Dividends. Subject to provisions of law and the certificate of incorporation of the corporation, dividends may be declared by the board of directors at any regular or special meeting and may be paid in cash, in property, or in shares of stock of the corporation. Such declaration and payment shall be at the discretion of the board of directors.

8.2 Reserves. There may be created by the board of directors out of funds of the corporation legally available therefor such reserve or reserves as the directors from time to time, in their discretion, consider proper to provide for contingencies, to equalize dividends, or to repair or maintain any property of the corporation, or for such other purpose as the board of directors shall consider beneficial to the corporation, and the board of directors may modify or abolish any such reserve in the manner in which it was created.

8.3 Books and Records. The corporation shall keep correct and complete books and records of account, shall keep minutes of the proceedings of its stockholders and board of directors and shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of the shares held by each.

8.4 Fiscal Year. The fiscal year of the corporation shall be fixed by the board of directors; provided, however, that if such fiscal year is not fixed by the board of directors and the selection of the fiscal year is not expressly deferred by the board of directors, the fiscal year shall be the calendar year.

8.5 Seal. The corporation may, but is not required to, adopt a seal such as may be from time to time approved by the board of directors.

8.6 Checks, Notes, Drafts, etc. All checks, notes, drafts or other orders for payment of money of the corporation shall be signed, endorsed, or accepted in the name of the corporation by such officer, officers, person or person as from time to time may be designated by the board of directors or by an officer or officers authorized by the board of directors to make such designation.

8.7 Resignations. Any director, committee member, or officer may resign by so stating at any meeting of the board of directors or by giving written notice to the board of directors, the Chairman of the Board, the Chief Executive Officer, the President, or the Secretary. Such resignation shall take effect at the time specified therein or, if no time is specified therein, immediately upon its receipt. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

8.8 Securities of Other Corporations. The Chairman of the Board, the Chief Executive Officer, the President, or any Vice President of the corporation shall have the power and authority to transfer, endorse for transfer, vote, consent, or take any other action with respect to any securities of another issuer which may be held or owned by the corporation and to make, execute, and deliver any waiver, proxy, or consent with respect to any such securities.

8.9 Telephone Meetings. Stockholders (acting for themselves or through a proxy), members of the board of directors, and members of a committee of the board of directors may participate in and hold a meeting of such stockholders, board of directors, or committee by means of a conference telephone or similar communications equipment by means of which persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 8.9 shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

8.10 Action Without a Meeting.

(a) Unless otherwise provided in the certificate of incorporation of the corporation, any action required by the Delaware General Corporation Law, as amended, to be taken at any meeting of the stockholders, or any action which may be taken at any meeting of the stockholders, may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders (acting for themselves or through a proxy) of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which the holders of all shares entitled to vote thereon were present and voted and shall be delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Every written consent of stockholders shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty (60) days of the earliest dated consent delivered in the manner required by this Section 8.10(a) to the corporation, written consents signed by a sufficient number of holders to take action are delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office, principal place of business, or such officer or agent shall be by hand or by certified mail, return receipt requested.

(b) Unless otherwise restricted by the certificate of incorporation of the corporation or by these bylaws, any action required or permitted to be taken at a meeting of the board of directors, or of any committee of the board of directors, may be taken without a meeting if a consent or consents in writing, setting forth the action so taken, shall be signed by all the directors or all the committee members, as the case may be, entitled to vote with respect to the subject matter thereof, and such consent shall have the same force and effect as a vote of such directors or committee members, as the case may be, and may be stated as such in any certificate or document filed with the Secretary of State of the State of Delaware or in any certificate delivered to any person. Such consent or consents shall be filed with the minutes of proceedings of the board or committee, as the case may be.

8.11 Invalid Provisions. If any part of these bylaws shall be held invalid or inoperative for any reason, the remaining parts, so far as it is possible and reasonable, shall remain valid and operative.

8.12 Mortgages, etc. With respect to any deed, deed of trust, mortgage, or other instrument executed by the corporation through its duly authorized officer or officers, the attestation to such execution by the Secretary of the corporation shall not be necessary to constitute such deed, deed of trust, mortgage, or other instrument a valid and binding obligation against the corporation unless the resolutions, if any, of the board of directors authorizing such execution expressly state that such attestation is necessary.

8.13 Governing Law. This corporation is organized under the provisions of the General Corporation Law of the State of Delaware. The corporate affairs of this corporation shall be governed by and conducted in accordance with the provisions of the General Corporation Law of the State of Delaware, as the same presently exists and is from time to time hereafter amended or superseded, except in those instances where the certificate of incorporation or bylaws of this corporation, now or through amendment hereafter, may adopt alternative rules which are permissible under the General Corporation Law of the State of Delaware.

8.14 Forum Selection. Unless the corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the corporation, (ii) any action asserting a claim for breach of a fiduciary duty owed by any director, officer, employee or agent of the corporation to the corporation or the corporation's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the General Corporation Law of the State of Delaware, the certificate of incorporation or the by-laws of the corporation or (iv) any action asserting a claim governed by the internal affairs doctrine, in each case subject to said Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein.

8.15 Headings. The headings used in these bylaws have been inserted for administrative convenience only and do not constitute matter to be construed in interpretation.

8.16 References. Whenever herein the singular number is used, the same shall include the plural where appropriate, and words of any gender should include each other gender where appropriate.

8.17 Amendments. These bylaws may be amended, altered, changed, adopted and repealed or new bylaws adopted by the board of directors. The stockholders may make additional bylaws and may alter and repeal any bylaws whether such bylaws were originally adopted by them or otherwise.

ROYALE ENERGY, INC.
SUBSIDIARIES
December 31, 2025

Royale Energy Funds, Inc
Matrix Permian Investment, L.P.
Matrix Investment, L.P.
Royale DWI Investors, LLC
Matrix Oil Management, Corp.
Matrix Pipeline, L.P. (Limited Partner only, General Partner is Matrix Oil Corp. part of the RMX Joint Venture)

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-228028), of Royale Energy, Inc. (the “Company”) of our report dated July 10, 2026, relating to the consolidated financial statements which appears in this Annual Report on Form 10-K. Our report contains an explanatory paragraph regarding the Company’s ability to continue as a going concern.

/s/ BDO USA, P.C.
(Formerly HORNE LLP)

Houston, Texas
July 10, 2026

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS AND GEOLOGISTS

We hereby consent to the inclusion of our report of Royale Energy, Inc. (the “Company”) dated July 1, 2026, in the Annual Report on Form 10-K for the year ended December 31, 2025, of the Company and its subsidiaries, to be filed with the Securities and Exchange Commission.

NETHERLAND, SEWELL & ASSOCIATES, INC.

By: /s/ Richard B. Talley, Jr.
Richard B. Talley, Jr., P.E.
Chairman and Chief Executive Officer

Houston, Texas
July 10, 2026

I, Johnny Jordan, certify that:

1. I have reviewed this report on Form 10-K 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: July 10, 2026

By: /s/ Johnny Jordan
Johnny Jordan, Chief Executive Officer

I, Ronald Lipnick, certify that:

1. I have reviewed this report on Form 10-K 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: July 10, 2026

By: /s/ Ronald Lipnick
Ronald Lipnick, Interim Chief Financial Officer

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

The undersigned, Johnny Jordan, 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, to his knowledge:

- (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2025 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) 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: July 10, 2026

By: /s/ Johnny Jordan
Johnny Jordan, Chief Executive Officer

This certification accompanies this Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

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

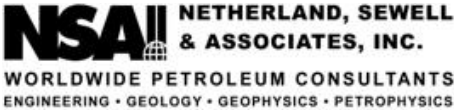
The undersigned, Ronald Lipnick, Interim Chief Financial Officer of Royale Energy, Inc., a Delaware corporation (the “Company”), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, hereby certifies that, to his knowledge:

- (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2025 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) 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: July 10, 2026

By: /s/ Ronald Lipnick
Ronald Lipnick, Interim Chief Financial Officer

This certification accompanies this Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.



CHAIRMAN & CEO EXECUTIVE COMMITTEE
RICHARD B. TALLEY, JR. P. SCOTT FROST
PRESIDENT & COO JOHN G. HATTNER
ERIC J. STEVENS JOSEPH J. SPELLMAN

July 1, 2026

Mr. Johnny Jordan
Royale Energy, Inc.
1530 Hilton Head Road, Suite 205
El Cajon, California 92019

Dear Mr. Jordan:

In accordance with your request, we have estimated the proved reserves and future revenue, as of December 31, 2025, to the Royale Energy, Inc. (Royale) interest in certain oil and gas properties located in California, Oklahoma, and Texas. We completed our evaluation on or about March 11, 2026. It is our understanding that the proved reserves estimated in this report constitute all of the proved reserves owned by Royale. The estimates in this report have been prepared in accordance with the definitions and regulations of the U.S. Securities and Exchange Commission (SEC) and conform to the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas, except that future income taxes are excluded and, as requested, abandonment costs have only been included in our estimates of future net revenue for the undeveloped locations in Ector County. Definitions are presented immediately following this letter. This report has been prepared for Royale's use in filing with the SEC; in our opinion the assumptions, data, methods, and procedures used in the preparation of this report are appropriate for such purpose.

We estimate the net reserves and future net revenue to the Royale interest in these properties, as of December 31, 2025, to be:

Category	Net Reserves		Future Net Revenue (M\$)	
	Oil (MBBL)	Gas (MMCF)	Total	Present Worth at 10%
Proved Developed Producing	199.0	569.5	8,381.5	4,276.9
Proved Developed Non-Producing	18.7	32.9	553.5	449.3
Proved Undeveloped	429.4	1,213.4	11,527.3	6,449.9
Total Proved	647.1	1,815.8	20,462.3	11,176.1

The oil volumes shown include crude oil and condensate. Oil volumes are expressed in thousands of barrels (MBBL); a barrel is equivalent to 42 United States gallons. Gas volumes are expressed in millions of cubic feet (MMCF) at standard temperature and pressure bases.

Reserves categorization conveys the relative degree of certainty; reserves subcategorization is based on development and production status. As requested, probable reserves that exist for these properties have not been included. No study was made to determine whether possible reserves might be established for these properties. The estimates of reserves and future revenue included herein have not been adjusted for risk. This report does not include any value that could be attributed to interests in undeveloped acreage beyond those tracts for which undeveloped reserves have been estimated.

Gross revenue is Royale's share of the gross (100 percent) revenue from the properties prior to any deductions. Future net revenue is after deductions for Royale's share of production taxes, ad valorem taxes, capital costs, abandonment costs, and operating expenses but before consideration of any income taxes. The future net revenue has been discounted at an annual rate of 10 percent to determine its present worth, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this report, whether discounted or undiscounted, should not be construed as being the fair market value of the properties.

Prices used in this report are based on the 12-month unweighted arithmetic average of the first-day-of-the-month price for each month in the period January through December 2025. For oil volumes, the average West Texas Intermediate spot price of \$66.01 per barrel is adjusted by field for quality, transportation fees, and market differentials. For gas volumes, the average Henry Hub spot price of \$3.387 per MMBTU is adjusted by field for energy content, transportation fees, and market differentials. All prices are held constant throughout the lives of the properties. The average adjusted product prices weighted by production over the remaining lives of the properties are \$61.92 per barrel of oil and \$1.997 per MCF of gas.

Operating costs used in this report are based on operating expense records of Royale. These costs include the per-well overhead expenses allowed under joint operating agreements along with estimates of costs to be incurred at and below the district and field levels. Operating costs have been divided into per-well costs and per-unit-of-production costs. Headquarters general and administrative overhead expenses of Royale are included to the extent that they are covered under joint operating agreements for the operated properties. Operating costs are not escalated for inflation.

Capital costs used in this report were provided by Royale and are based on authorizations for expenditure and actual costs from recent activity. Capital costs are included as required for workovers, new development wells, and production equipment. It is our understanding that all capital costs for the undeveloped locations in Ector County will be incurred by another interest owner. Based on our understanding of future development plans, a review of the records provided to us, and our knowledge of similar properties, we regard these estimated capital costs to be reasonable. Abandonment costs used in this report for proved undeveloped and probable properties are Royale's estimates of the costs to abandon the wells and production facilities, net of any salvage value. As requested, our estimates for all other properties do not include any salvage value for the lease and well equipment or the cost of abandoning the properties. Capital costs and abandonment costs are not escalated for inflation.

For the purposes of this report, we did not perform any field inspection of the properties, nor did we examine the mechanical operation or condition of the wells and facilities. We have not investigated possible environmental liability related to the properties; therefore, our estimates do not include any costs due to such possible liability.

We have made no investigation of potential volume and value imbalances resulting from overdelivery or underdelivery to the Royale interest. Therefore, our estimates of reserves and future revenue do not include adjustments for the settlement of any such imbalances; our projections are based on Royale receiving its net revenue interest share of estimated future gross production. Additionally, we have made no specific investigation of any firm transportation contracts that may be in place for these properties; our estimates of future revenue include the effects of such contracts only to the extent that the associated fees are accounted for in the historical field- and lease-level accounting statements.

The reserves shown in this report are estimates only and should not be construed as exact quantities. Proved reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be economically producible; probable and possible reserves are those additional reserves which are sequentially less certain to be recovered than proved reserves. Estimates of reserves may increase or decrease as a result of market conditions, future operations, changes in regulations, or actual reservoir performance. In addition to the primary economic assumptions discussed herein, our estimates are based on certain assumptions including, but not limited to, that the properties will be developed consistent with current development plans as provided to us by Royale, that the properties will be operated in a prudent manner, that no governmental regulations or controls will be put in place that would impact the ability of the interest owner to recover the reserves, and that our projections of future production will prove consistent with actual performance. If the reserves are recovered, the revenues therefrom and the costs related thereto could be more or less than the estimated amounts. Because of governmental policies and uncertainties of supply and demand, the sales rates, prices received for the reserves, and costs incurred in recovering such reserves may vary from assumptions made while preparing this report.

For the purposes of this report, we used technical and economic data including, but not limited to, well logs, geologic maps, well test data, production data, historical price and cost information, and property ownership interests. The reserves in this report have been estimated using deterministic methods; these estimates have been prepared in accordance with the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers (SPE Standards). We used standard engineering and geoscience methods, or a combination of methods, including performance analysis, volumetric analysis, and analogy, that we considered to be appropriate and necessary to categorize and estimate reserves in accordance with SEC definitions and regulations. A substantial portion of these reserves are for undeveloped locations; such reserves are based on estimates of reservoir volumes and recovery efficiencies along with analogy to properties with similar geologic and reservoir characteristics. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geoscience data; therefore, our conclusions necessarily represent only informed professional judgment.

The data used in our estimates were obtained from Royale, public data sources, and the nonconfidential files of Netherland, Sewell & Associates, Inc. (NSAI) and were accepted as accurate. Supporting work data are on file in our office. We have not examined the titles to the properties or independently confirmed the actual degree or type of interest owned. The technical persons primarily responsible for preparing the estimates presented herein meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the SPE Standards. C. Ashley Smith, a Licensed Professional Engineer in the State of Texas, has been practicing consulting petroleum engineering at NSAI since 2006 and has over 5 years of prior industry experience. Edward C. Roy III, a Licensed Professional Geoscientist in the State of Texas, has been practicing consulting petroleum geoscience at NSAI since 2008 and has over 11 years of prior industry experience. We are independent petroleum engineers, geologists, geophysicists, and petrophysicists; we do not own an interest in these properties nor are we employed on a contingent basis.

Sincerely,

NETHERLAND, SEWELL & ASSOCIATES, INC.

Texas Registered Engineering Firm F-2699

By: /s/ Richard B. Talley, Jr.
Richard B. Talley, Jr., P.E.
Chairman and Chief Executive Officer

By: /s/ Edward C. Roy III
Edward C. Roy III, P.G. 2364
Vice President

By: /s/ C. Ashley Smith
C. Ashley Smith, P.E. 100560
Vice President

Date Signed: July 1, 2026

Date Signed: July 1, 2026

CAS:KJL

The following definitions are set forth in U.S. Securities and Exchange Commission (SEC) Regulation S-X Section 210.4-10(a). Also included is supplemental information from (1) the 2018 Petroleum Resources Management System approved by the Society of Petroleum Engineers, (2) the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas, and (3) the SEC’s Compliance and Disclosure Interpretations.

- (1) *Acquisition of properties.* Costs incurred to purchase, lease or otherwise acquire a property, including costs of lease bonuses and options to purchase or lease properties, the portion of costs applicable to minerals when land including mineral rights is purchased in fee, brokers’ fees, recording fees, legal costs, and other costs incurred in acquiring properties.
- (2) *Analogous reservoir.* Analogous reservoirs, as used in resources assessments, have similar rock and fluid properties, reservoir conditions (depth, temperature, and pressure) and drive mechanisms, but are typically at a more advanced stage of development than the reservoir of interest and thus may provide concepts to assist in the interpretation of more limited data and estimation of recovery. When used to support proved reserves, an “analogous reservoir” refers to a reservoir that shares the following characteristics with the reservoir of interest:
- (i) Same geological formation (but not necessarily in pressure communication with the reservoir of interest);
 - (ii) Same environment of deposition;
 - (iii) Similar geological structure; and
 - (iv) Same drive mechanism.

Instruction to paragraph (a)(2): Reservoir properties must, in the aggregate, be no more favorable in the analog than in the reservoir of interest.

- (3) *Bitumen.* Bitumen, sometimes referred to as natural bitumen, is petroleum in a solid or semi-solid state in natural deposits with a viscosity greater than 10,000 centipoise measured at original temperature in the deposit and atmospheric pressure, on a gas free basis. In its natural state it usually contains sulfur, metals, and other non-hydrocarbons.
- (4) *Condensate.* Condensate is a mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that, when produced, is in the liquid phase at surface pressure and temperature.
- (5) *Deterministic estimate.* The method of estimating reserves or resources is called deterministic when a single value for each parameter (from the geoscience, engineering, or economic data) in the reserves calculation is used in the reserves estimation procedure.
- (6) *Developed oil and gas reserves.* Developed oil and gas reserves are reserves of any category that can be expected to be recovered:
- (i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and
 - (ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

<i>Supplemental definitions from the 2018 Petroleum Resources Management System:</i> <i>Developed Producing Reserves – Expected quantities to be recovered from completion intervals that are open and producing at the effective date of the estimate. Improved recovery Reserves are considered producing only after the improved recovery project is in operation.</i> <i>Developed Non-Producing Reserves – Shut-in and behind-pipe Reserves. Shut-in Reserves are expected to be recovered from (1) completion intervals that are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells that will require additional completion work or future re-completion before start of production with minor cost to access these reserves. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.</i>

(7) *Development costs.* Costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas. More specifically, development costs, including depreciation and applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

- (i) Gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines, and power lines, to the extent necessary in developing the proved reserves.
- (ii) Drill and equip development wells, development-type stratigraphic test wells, and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment, and the wellhead assembly.
- (iii) Acquire, construct, and install production facilities such as lease flow lines, separators, treaters, heaters, manifolds, measuring devices, and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems.
- (iv) Provide improved recovery systems.

(8) *Development project.* A development project is the means by which petroleum resources are brought to the status of economically producible. As examples, the development of a single reservoir or field, an incremental development in a producing field, or the integrated development of a group of several fields and associated facilities with a common ownership may constitute a development project.

(9) *Development well.* A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

(10) *Economically producible.* The term economically producible, as it relates to a resource, means a resource which generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. The value of the products that generate revenue shall be determined at the terminal point of oil and gas producing activities as defined in paragraph (a)(16) of this section.

(11) *Estimated ultimate recovery (EUR).* Estimated ultimate recovery is the sum of reserves remaining as of a given date and cumulative production as of that date.

(12) *Exploration costs.* Costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and gas reserves, including costs of drilling exploratory wells and exploratory-type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as prospecting costs) and after acquiring the property. Principal types of exploration costs, which include depreciation and applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (i) Costs of topographical, geographical and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews, and others conducting those studies. Collectively, these are sometimes referred to as geological and geophysical or “G&G” costs.
- (ii) Costs of carrying and retaining undeveloped properties, such as delay rentals, ad valorem taxes on properties, legal costs for title defense, and the maintenance of land and lease records.
- (iii) Dry hole contributions and bottom hole contributions.
- (iv) Costs of drilling and equipping exploratory wells.
- (v) Costs of drilling exploratory-type stratigraphic test wells.

(13) *Exploratory well.* An exploratory well is a well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well, or a stratigraphic test well as those items are defined in this section.

(14) *Extension well.* An extension well is a well drilled to extend the limits of a known reservoir.

(15) *Field.* An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field which are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms “structural feature” and “stratigraphic condition” are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

(16) *Oil and gas producing activities.*

(i) Oil and gas producing activities include:

- (A) The search for crude oil, including condensate and natural gas liquids, or natural gas (“oil and gas”) in their natural states and original locations;
- (B) The acquisition of property rights or properties for the purpose of further exploration or for the purpose of removing the oil or gas from such properties;
- (C) The construction, drilling, and production activities necessary to retrieve oil and gas from their natural reservoirs, including the acquisition, construction, installation, and maintenance of field gathering and storage systems, such as:
 - (1) Lifting the oil and gas to the surface; and
 - (2) Gathering, treating, and field processing (as in the case of processing gas to extract liquid hydrocarbons); and
- (D) Extraction of saleable hydrocarbons, in the solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable natural resources which are intended to be upgraded into synthetic oil or gas, and activities undertaken with a view to such extraction.

Instruction 1 to paragraph (a)(16)(i): The oil and gas production function shall be regarded as ending at a “terminal point”, which is the outlet valve on the lease or field storage tank. If unusual physical or operational circumstances exist, it may be appropriate to regard the terminal point for the production function as:

- a. The first point at which oil, gas, or gas liquids, natural or synthetic, are delivered to a main pipeline, a common carrier, a refinery, or a marine terminal; and
- b. In the case of natural resources that are intended to be upgraded into synthetic oil or gas, if those natural resources are delivered to a purchaser prior to upgrading, the first point at which the natural resources are delivered to a main pipeline, a common carrier, a refinery, a marine terminal, or a facility which upgrades such natural resources into synthetic oil or gas.

Instruction 2 to paragraph (a)(16)(i): For purposes of this paragraph (a)(16), the term *saleable hydrocarbons* means hydrocarbons that are saleable in the state in which the hydrocarbons are delivered.

(ii) Oil and gas producing activities do not include:

- (A) Transporting, refining, or marketing oil and gas;
- (B) Processing of produced oil, gas, or natural resources that can be upgraded into synthetic oil or gas by a registrant that does not have the legal right to produce or a revenue interest in such production;
- (C) Activities relating to the production of natural resources other than oil, gas, or natural resources from which synthetic oil and gas can be extracted; or
- (D) Production of geothermal steam.

(17) *Possible reserves.* Possible reserves are those additional reserves that are less certain to be recovered than probable reserves.

- (i) When deterministic methods are used, the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves. When probabilistic methods are used, there should be at least a 10% probability that the total quantities ultimately recovered will equal or exceed the proved plus probable plus possible reserves estimates.
- (ii) Possible reserves may be assigned to areas of a reservoir adjacent to probable reserves where data control and interpretations of available data are progressively less certain. Frequently, this will be in areas where geoscience and engineering data are unable to define clearly the area and vertical limits of commercial production from the reservoir by a defined project.

- (iii) Possible reserves also include incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than the recovery quantities assumed for probable reserves.
- (iv) The proved plus probable and proved plus probable plus possible reserves estimates must be based on reasonable alternative technical and commercial interpretations within the reservoir or subject project that are clearly documented, including comparisons to results in successful similar projects.
- (v) Possible reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from proved areas by faults with displacement less than formation thickness or other geological discontinuities and that have not been penetrated by a wellbore, and the registrant believes that such adjacent portions are in communication with the known (proved) reservoir. Possible reserves may be assigned to areas that are structurally higher or lower than the proved area if these areas are in communication with the proved reservoir.
- (vi) Pursuant to paragraph (a)(22)(iii) of this section, where direct observation has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves should be assigned in the structurally higher portions of the reservoir above the HKO only if the higher contact can be established with reasonable certainty through reliable technology. Portions of the reservoir that do not meet this reasonable certainty criterion may be assigned as probable and possible oil or gas based on reservoir fluid properties and pressure gradient interpretations.

(18) *Probable reserves.* Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

- (i) When deterministic methods are used, it is as likely as not that actual remaining quantities recovered will exceed the sum of estimated proved plus probable reserves. When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the proved plus probable reserves estimates.
- (ii) Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir.
- (iii) Probable reserves estimates also include potential incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than assumed for proved reserves.
- (iv) See also guidelines in paragraphs (a)(17)(iv) and (a)(17)(vi) of this section.

(19) *Probabilistic estimate.* The method of estimation of reserves or resources is called probabilistic when the full range of values that could reasonably occur for each unknown parameter (from the geoscience and engineering data) is used to generate a full range of possible outcomes and their associated probabilities of occurrence.

(20) *Production costs.*

- (i) Costs incurred to operate and maintain wells and related equipment and facilities, including depreciation and applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. They become part of the cost of oil and gas produced. Examples of production costs (sometimes called lifting costs) are:
 - (A) Costs of labor to operate the wells and related equipment and facilities.
 - (B) Repairs and maintenance.
 - (C) Materials, supplies, and fuel consumed and supplies utilized in operating the wells and related equipment and facilities.
 - (D) Property taxes and insurance applicable to proved properties and wells and related equipment and facilities.
 - (E) Severance taxes.
- (ii) Some support equipment or facilities may serve two or more oil and gas producing activities and may also serve transportation, refining, and marketing activities. To the extent that the support equipment and facilities are used in oil and gas producing activities, their depreciation and applicable operating costs become exploration, development or production costs, as appropriate. Depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs are not production costs but also become part of the cost of oil and gas produced along with production (lifting) costs identified above.

(21) *Proved area.* The part of a property to which proved reserves have been specifically attributed.

(22) *Proved oil and gas reserves.* Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

- (i) The area of the reservoir considered as proved includes:
 - (A) The area identified by drilling and limited by fluid contacts, if any, and

(B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

- (ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.
- (iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.
- (iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and

(B) The project has been approved for development by all necessary parties and entities, including governmental entities.

- (v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

(23) *Proved properties.* Properties with proved reserves.

(24) *Reasonable certainty.* If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease.

(25) *Reliable technology.* Reliable technology is a grouping of one or more technologies (including computational methods) that has been field tested and has been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

(26) *Reserves.* Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

Note to paragraph (a)(26): Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

Excerpted from the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas:

932-235-50-30 A standardized measure of discounted future net cash flows relating to an entity's interests in both of the following shall be disclosed as of the end of the year:

- a. Proved oil and gas reserves (see paragraphs 932-235-50-3 through 50-11B)*
- b. Oil and gas subject to purchase under long-term supply, purchase, or similar agreements and contracts in which the entity participates in the operation of the properties on which the oil or gas is located or otherwise serves as the producer of those reserves (see paragraph 932-235-50-7).*

The standardized measure of discounted future net cash flows relating to those two types of interests in reserves may be combined for reporting purposes.

932-235-50-31 All of the following information shall be disclosed in the aggregate and for each geographic area for which reserve quantities are disclosed in accordance with paragraphs 932-235-50-3 through 50-11B:

- a. Future cash inflows. These shall be computed by applying prices used in estimating the entity's proved oil and gas reserves to the year-end quantities of those reserves. Future price changes shall be considered only to the extent provided by contractual arrangements in existence at year-end.*
- b. Future development and production costs. These costs shall be computed by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. If estimated development expenditures are significant, they shall be presented separately from estimated production costs.*

- c. *Future income tax expenses. These expenses shall be computed by applying the appropriate year-end statutory tax rates, with consideration of future tax rates already legislated, to the future pretax net cash flows relating to the entity's proved oil and gas reserves, less the tax basis of the properties involved. The future income tax expenses shall give effect to tax deductions and tax credits and allowances relating to the entity's proved oil and gas reserves.*
- d. *Future net cash flows. These amounts are the result of subtracting future development and production costs and future income tax expenses from future cash inflows.*
- e. *Discount. This amount shall be derived from using a discount rate of 10 percent a year to reflect the timing of the future net cash flows relating to proved oil and gas reserves.*
- f. *Standardized measure of discounted future net cash flows. This amount is the future net cash flows less the computed discount.*

(27) *Reservoir.* A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

(28) *Resources.* Resources are quantities of oil and gas estimated to exist in naturally occurring accumulations. A portion of the resources may be estimated to be recoverable, and another portion may be considered to be unrecoverable. Resources include both discovered and undiscovered accumulations.

(29) *Service well.* A well drilled or completed for the purpose of supporting production in an existing field. Specific purposes of service wells include gas injection, water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for in-situ combustion.

(30) *Stratigraphic test well.* A stratigraphic test well is a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Such wells customarily are drilled without the intent of being completed for hydrocarbon production. The classification also includes tests identified as core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic tests are classified as "exploratory type" if not drilled in a known area or "development type" if drilled in a known area.

(31) *Undeveloped oil and gas reserves.* Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

- (i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.
- (ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

From the SEC's Compliance and Disclosure Interpretations (October 26, 2009):

Although several types of projects — such as constructing offshore platforms and development in urban areas, remote locations or environmentally sensitive locations — by their nature customarily take a longer time to develop and therefore often do justify longer time periods, this determination must always take into consideration all of the facts and circumstances. No particular type of project per se justifies a longer time period, and any extension beyond five years should be the exception, and not the rule.

Factors that a company should consider in determining whether or not circumstances justify recognizing reserves even though development may extend past five years include, but are not limited to, the following:

- *The company's level of ongoing significant development activities in the area to be developed (for example, drilling only the minimum number of wells necessary to maintain the lease generally would not constitute significant development activities);*
- *The company's historical record at completing development of comparable long-term projects;*
- *The amount of time in which the company has maintained the leases, or booked the reserves, without significant development activities;*
- *The extent to which the company has followed a previously adopted development plan (for example, if a company has changed its development plan several times without taking significant steps to implement any of those plans, recognizing proved undeveloped reserves typically would not be appropriate); and*
- *The extent to which delays in development are caused by external factors related to the physical operating environment (for example, restrictions on development on Federal lands, but not obtaining government permits), rather than by internal factors (for example, shifting resources to develop properties with higher priority).*

- (iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.

(32) *Unproved properties.* Properties with no proved reserves.