ROYALE ENERGY INC
Form 10-Q/A
July 25, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q /A-1

AMENDMENT NO. 1 TO THE
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2017 Commission File No. 000-22750

ROYALE ENERGY, INC.
(Exact name of registrant as specified in its charter)

California	33-0224120
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

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

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

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

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

At May 1, 2017, a total of 21,797,572 shares of registrant's common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROYALE ENERGY, INC.
BALANCE SHEETS

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
ASSETS		
Current Assets		
Cash	$4,936,668	$4,994,598
Other Receivables, net	530,233	676,647
Revenue Receivables	188,682	303,528
Prepaid Expenses	82,915	63,308
Total Current Assets	5,738,498	6,038,081
Other Assets	610,779	610,779
Oil and Gas Properties, (Successful Efforts Basis), Equipment and Fixtures, net	1,656,836	1,733,424
Total Assets	$8,006,113	$8,382,284

See notes to unaudited financial statements.

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ROYALE ENERGY, INC.
BALANCE SHEETS

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts Payable and Accrued Expenses	$2,400,139	$2,469,245
Cash Advances on Pending Transactions	1,580,000	1,580,000
Deferred Drilling Obligation	8,594,001	7,894,001
Total Current Liabilities	12,574,140	11,943,246
Noncurrent Liabilities:		
Asset Retirement Obligation	957,689	952,110
Total Noncurrent Liabilities	957,689	952,110
Total Liabilities	13,531,829	12,895,356
Stockholders' Deficit:		
Common Stock, No Par Value, 30,000,000 Shares Authorized, 21,797,572 and 21,836,033 shares issued and outstanding at March 31, 2017 and December 31, 2016	41,240,449	41,265,449
Accumulated Deficit	(46,766,165)	(45,778,521)
Total Stockholders' Deficit	(5,525,716)	(4,513,072)
Total Liabilities and Stockholders' Deficit	$8,006,113	$8,382,284

See notes to unaudited financial statements.

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ROYALE ENERGY, INC.
STATEMENTS OF OPERATIONS
FOR THE QUARTER ENDED MARCH 31, 2017 AND 2016

	2017 (Unaudited)	2016 (Unaudited)
Revenues:		
Sale of Oil and Gas	$187,343	$134,117
Supervisory Fees and Other	87,055	152,841
Total Revenues	274,398	286,958
Costs and Expenses:		
General and Administrative	564,986	632,777
Lease Operating	106,621	185,135
Lease Impairment	37,369	-
Well Equipment Write Down	6,000	10,589
Legal and Accounting	479,294	159,637
Marketing	54,148	44,381
Depreciation, Depletion and Amortization	46,840	77,183
Total Costs and Expenses	1,295,258	1,109,702
Gain on Turnkey Drilling	-	220,074
Loss From Operations	(1,020,860)	(602,670)
Other Income (Expense):		
Interest Expense	(39,912)	(21,650)
Gain on Settlement of Accounts Payable	73,128	-
Loss Before Income Tax Expense	(987,644)	(624,320)
Net Loss	$(987,644)	$(624,320)
Basic Loss Per Share:		
Net Loss available to common stock	$(0.05)	$(0.04)
Diluted Loss Per Share	$(0.05)	$(0.04)

See notes to unaudited financial statements.

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ROYALE ENERGY, INC.
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

	2017 (Unaudited)	2016 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(987,644)	$(624,320)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation, Depletion and Amortization	46,840	77,183
Lease Impairment	37,369	-
Gain on Turnkey Drilling Programs	-	(220,074)
Gain on Settlement of Accounts Payable	(73,128)	-
Well Equipment Write Down	6,000	10,589
Stock-Based Compensation	-	182,187
(Increase) Decrease in:		
Other & Revenue Receivables	261,260	20,266
Prepaid Expenses and Other Assets	(19,607)	(24,627)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(20,978)	302,663
Net Cash Used in Operating Activities	(749,888)	(276,133)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for Oil and Gas Properties and Other Capital Expenditures	(8,042)	(1,411,811)
Proceeds from Turnkey Drilling Programs	700,000	475,000
Net Cash Provided By (Used) In Investing Activities	691,958	(936,811)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	-	(7,579)
Net Cash Used in Financing Activities	-	(7,579)
Net Decrease in Cash and Cash Equivalents	(57,930)	(1,220,523)
Cash at Beginning of Period	4,994,598	3,763,819
Cash at End of Period	$4,936,668	$2,543,296
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Cash Paid for Interest	$412	$21,650
Cash Paid for Taxes	$1,000	$2,100

See notes to unaudited financial statements.

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ROYALE ENERGY, INC.
NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 – In the opinion of management, the accompanying unaudited financial statements include all adjustments, consisting only of normally recurring adjustments, necessary to present fairly the Company's financial position and the results of its operations and cash flows for the periods presented. The results of operations for the three month period are not, in management's opinion, indicative of the results to be expected for a full year of operations. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report.

Merger with Matrix Oil Management Corporation

In July 2016, we entered into a letter of intent with Matrix Oil Management Corporation ("Matrix") to merge Royale Energy and Matrix in a combined stock and assumption of debt transaction. On November 30, 2016, we entered into an Agreement and Plan of Merger and Reorganization dated November 30, 2016, among Royale, Royale Energy Holdings, Inc., a Delaware corporation (the "Parent"), Royale Merger Sub, Inc., a California corporation and wholly-owned subsidiary of Parent, Matrix Merger Sub, Inc., a California corporation and wholly-owned subsidiary of Parent, and Matrix. The Merger Agreement was subsequently amended and restated as of December 31, 2016 (the "Merger Agreement").

The Merger Agreement is part of a series of related transactions in which the Parent will (i) issue its common stock to acquire all of (A) the common stock of Royale Energy, Matrix and Matrix's affiliate, Matrix Oil Corporation, a California corporation, and (B) the partnership interests of three limited partnerships affiliated with Matrix and (ii) issue newly created Series B 3.5% Convertible Preferred Stock in exchange for approximately \$20,398, 537 of subordinated debt issued by Matrix and its affiliates.

Immediately after the mergers and the related transactions, it is expected that (i) former holders of Matrix common stock, Matrix Oil Corporation capital stock and the three limited partnerships affiliated with Matrix will collectively own 50% of the Parent's common stock then outstanding, (ii) former holders of Royale Energy common stock will collectively own 50% of the Parent's common stock then outstanding, in each case giving effect to the number of shares of the Parent's common stock issuable under all options and warrants outstanding immediately after the mergers other than shares issuable on exercise of certain options and warrants issued by Royale Energy and (iii) former holders of subordinated debt issued by Matrix and its affiliates will collectively own 100% of all of the Parent's Series B Convertible Preferred Stock then outstanding.

On March 31, 2017, the parties amended the Merger Agreement to make three material changes. First, the Amendment extends the outside termination date for the merger from March 31, 2017, to June 30, 2017. The outside termination date is the date, after which, either Royale or Matrix may terminate the Merger Agreement if it has not yet been closed and the failure to close is not due to the failure of the terminating party to perform or comply with any of its covenants or agreements to be performed under the Merger Agreement. On June 30, 2017, the parties again amended the Merger Agreement to extend the outside termination date for the merger from June 30, 2017, to September 30, 2017.

Second, Royale Energy paid \$100,000 to Matrix to help defray Matrix's legal fees incurred in connection with the Merger Agreement. The Amendment also provides for a \$100,000 termination fee to be paid from Matrix to Royale if Royale or Matrix terminates the Merger Agreement and the termination is not due to the failure of Matrix to perform or comply with any of its covenants or agreements to be performed under the Merger Agreement.

Third, the Amendment deletes a condition to closing of the Merger Agreement which required Royale Energy to have cash in excess of 65% of Royale Energy's deferred drilling obligations immediately prior to the closing of the merger. Royale Energy sponsors turnkey drilling agreement arrangements in unproved properties as a pooling of assets in a joint undertaking, whereby proceeds from participants are reported as deferred drilling obligations, and then reduced as costs to complete its obligations are incurred with any excess booked against its property account to reduce any basis in its own interest. As of December 31, 2016, Royale Energy had recorded deferred turnkey drilling associated with undrilled wells of $7,894,001 as a current liability.

The merger and related transactions will require the approval of the shareholders of each company and registration of the Royale Energy equity securities to be issued in the merger under the Securities Act of 1933 prior to completion of the transaction.

Matrix is an independent oil and natural gas producer based in Santa Barbara, California. Matrix and its affiliates are privately held by fewer than ten equity holders and partners.

Use of Estimates

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As reflected in the accompanying financial statements, the Company has negative working capital, losses from operations and negative cash flows from operations.

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Material estimates that are particularly susceptible to significant change relate to the estimate of Company oil and gas reserves prepared by an independent engineering consultant. Such estimates are subject to numerous uncertainties inherent in the estimation of quantities of proven reserves. Estimated reserves are used in the calculation of depletion, depreciation and amortization, unevaluated property costs, impairment of oil and natural gas properties, estimated future net cash flows, taxes, and contingencies.

Liquidity and Going Concern

The primary sources of liquidity have historically been issuances of common stock and operations. We believe that the completion of the contemplated merger with will enable us to return to positive cash flow. There is some doubt about the company's ability to meet liquidity demands, and we anticipate that our primary sources of liquidity will be from the issuance of debt and/or equity, and the sale of oil and natural gas property participation interest.

The Company's consolidated financial statements reflect an accumulated deficit of $46,766,165, a working capital deficiency of $6,835,642 and a stockholders' deficit of $5,525,716. These factors raise substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management's plans to alleviate the going concern include the proposed merger with Matrix and additional financing through issuances of common stock and the reduction of overhead costs. There is no assurance that additional financing will be available when needed or that management will be able to obtain financing on terms acceptable to the Company and whether the Company will become profitable and generate positive operating cash flow. If the Company is unable to raise sufficient additional funds, it will have to develop and implement a plan to further extend payables, attempt to extend note repayments, 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.

Revenue Recognition

Royale Energy's primary business is oil and gas production. Natural gas flows from the wells into gathering line systems, which are equipped occasionally with compressor systems, which in turn flow into metered transportation and customer pipelines. Monthly price data and daily production are used to invoice customers for amounts due to Royale Energy and other working interest owners. Royale Energy operates virtually all of its own wells and receives industry standard operator fees.

Royale Energy generally sells crude oil and natural gas under short-term agreements at prevailing market prices. Revenues are recognized when the products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured.

Revenues from the production of oil and natural gas properties in which the Royale Energy has an interest with other producers are recognized on the basis of Royale Energy's net working interest. Differences between actual production and net working interest volumes are not significant.

Royale Energy's financial statements include its pro rata ownership of wells. Royale Energy usually sells a portion of the working interest in each well it drills or participates in to third party investors and retains a portion of the prospect for its own account. Royale Energy generally retains about a 50% working interest. All results, successful or not, are included at its pro rata ownership amounts: revenue, expenses, assets, and liabilities as defined in FASB ASC 932-323-25 and 932-360.

Oil and Gas Property and Equipment

Depreciation, depletion and amortization, based on cost less estimated salvage value of the asset, are primarily determined under either the unit-of-production method or the straight-line method, which is based on estimated asset service life taking obsolescence into consideration. Maintenance and repairs, including planned major maintenance, are expensed as incurred. Major renewals and improvements are capitalized and the assets replaced are retired.

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

Royale Energy uses the "successful efforts" method to account for its exploration and production activities. Under this method, Royale Energy accumulates its proportionate share of costs on a well-by-well basis with certain exploratory expenditures and exploratory dry holes being expensed as incurred, and capitalizes expenditures for productive wells. Royale Energy amortizes the costs of productive wells under the unit-of-production method.

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Royale Energy carries, 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 Royale Energy is making sufficient progress assessing the reserves and the economic and operating viability of the project. 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 costs are expensed as incurred. Production involves lifting the oil and gas to the surface and gathering, treating, field processing and field storage of the oil and gas. The production function normally terminates at the outlet valve on the lease or field production storage tank. Production costs are those incurred to operate and maintain Royale Energy's wells and related equipment and facilities. They become part of the cost of oil and gas produced. These costs, sometimes referred to as lifting costs, include such items as labor costs to operate the wells and related equipment; repair and maintenance costs on the wells and equipment; materials, supplies and energy costs required to operate the wells and related equipment; and administrative expenses related to the production activity.
Proved oil and gas properties held and used by Royale Energy are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Royale Energy estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts. Cash flows used in impairment evaluations are developed using annually updated evaluation assumptions for crude oil commodity prices. Annual volumes are based on field production profiles, which are also updated annually. Prices for natural gas and other products are based on assumptions developed annually for evaluation purposes.

Impairment analyses are generally based on proved reserves. An asset group would be impaired if the undiscounted cash flows were less than its carrying value. Impairments are measured by the amount the carrying value exceeds fair value. During the quarter ended March 31, 2017, impairment losses of $37,369 were recorded on various capitalized lease and land costs that were no longer viable. No impairment losses recorded during the same quarter in 2016.

Significant unproved properties are assessed for impairment individually, and valuation allowances against the capitalized costs are recorded based on the estimated economic chance of success and the length of time that Royale Energy expects to hold the properties. The valuation allowances are reviewed at least annually.

Upon the sale or retirement of a complete field of a proved property, Royale Energy eliminates the cost from its books, and the resultant gain or loss is recorded to Royale Energy's Statement of Operations. Upon the sale of an entire interest in an unproved property where the property has been assessed for impairment individually, a gain or loss is recognized in Royale Energy's Statement of Operations. If a partial interest in an unproved property is sold, any funds received are accounted for as a recovery of the cost in the interest retained with any excess funds recognized as a gain. Should Royale Energy's turnkey drilling agreements include unproved property, total drilling costs incurred to satisfy its obligations are recovered by the total funds received under the agreements. Any excess funds are recorded as a Gain on Turnkey Drilling Programs, and any costs not recovered are capitalized and accounted for under the "successful efforts" method.

Royale Energy sponsors turnkey drilling agreement arrangements in unproved properties as a pooling of assets in a joint undertaking, whereby proceeds from participants are reported as Deferred Drilling Obligations, and then reduced as costs to complete its obligations are incurred with any excess booked against its property account to reduce any basis in its own interest. Gains on Turnkey Drilling Programs represent funds received from turnkey drilling participants in excess of all costs Royale incurs during the drilling programs (e.g., lease acquisition, exploration and development costs), including costs incurred on behalf of participants and costs incurred for its own account; and are recognized only upon making this determination after Royale's obligations have been fulfilled.

The contracts require the participants pay Royale Energy the full contract price upon execution of the agreement. Royale Energy completes the drilling activities typically between 10 and 30 days after drilling begins. The participant retains an undivided or proportional beneficial interest in the property, and is also responsible for its proportionate share of operating costs. Royale Energy retains legal title to the lease. The participants purchase a working interest directly in the well bore.

In these working interest arrangements, the participants are responsible for sharing in the risk of development, but also sharing in a proportional interest in rights to revenues and proportional liability for the cost of operations after drilling is completed and the interest is conveyed to the participant.

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A certain portion of the turnkey drilling participant's funds received are non-refundable. The company holds all funds invested as Deferred Drilling Obligations until drilling is complete. Occasionally, drilling is delayed for various reasons such as weather, permitting, drilling rig availability and/or contractual obligations. At March 31, 2017 and December 31, 2016, Royale Energy had Deferred Drilling Obligations of $8,594,001 and $7,894,001, respectively.

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

Losses on properties sold are recognized when incurred or when the properties are held for sale and the fair value of the properties is less than the carrying value.

Other Receivables

Our other receivables consist of receivables from direct working interest investors and industry partners. We provide for uncollectible accounts receivable using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged directly to bad debt expense when it becomes probable the receivable will not be collected. The allowance account is increased or decreased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account and recoveries of previously charged off accounts are added to the allowance. At March 31, 2017 and December 31, 2016, the Company established an allowance for uncollectable accounts of $2,270,773 and $2,270,773, 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.

Equipment and Fixtures

Equipment and fixtures are stated at cost and depreciated over the estimated useful lives of the assets, which range from three to seven years, using the straight-line method. Repairs and maintenance are charged to expense as incurred. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income. Maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains or losses on dispositions of property and equipment, other than oil and gas, are reflected in operations.

Fair Value Measurements

According to Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification, assets and liabilities that are measured at fair value on a recurring and nonrecurring basis in period subsequent to initial recognition, the reporting entity shall disclose information that enable users of its financial statements to assess the inputs used to develop those measurements and for recurring fair value measurements using significant unobservable inputs, the effect of the measurements on earnings for the period.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. Carrying amounts of the

Company's financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values as of the balance sheet dates because of their generally short maturities.

The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

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Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

Level 2: Directly or indirectly observable inputs as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

At March 31, 2017 and December 31, 2016, Royale Energy did not have any financial assets measured and recognized at fair value on a recurring basis. The Company estimates asset retirement obligations pursuant to the provisions of FASB ASC Topic 410, "Asset Retirement and Environmental Obligations" ("FASB ASC 410"). The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with oil and gas properties. Given the unobservable nature of the inputs, including plugging costs and reserve lives, the initial measurement of the asset retirement obligation liability is deemed to use Level 3 inputs.

Accounts Payable and Accrued Expenses

At March 31, 2017, the components of accounts payable and accrued expenses consisted of $1,182,242 in trade accounts payable due to various vendors, $595,716 in payables and accruals related to direct working interest investors revenues and operating costs, $96,744 in accrued expenses related to current drilling efforts, $266,110 for accrued liabilities for amounts set aside mainly for the plugging and abandonment of certain wells, $111,236 for employee related taxes and accruals, $105,333 related to interest payable on cash advances from pending transactions, $25,094 in deferred rent and $17,662 in federal and state income taxes payable. At December 31, 2016, the components of accounts payable and accrued expenses consisted of $1,205,740 in trade accounts payable due to various vendors, $699,068 in payables and accruals related to direct working interest investors operating costs, $98,172 in accrued expenses related to current drilling efforts, $266,110 for accrued liabilities for amounts set aside mainly for the plugging and abandonment of certain wells, $103,212 for employee related taxes and accruals, $65,833 related to interest payable on cash advances from pending transactions, $12,446 in deferred rent and $18,662 in federal and state income taxes payable.

Cash Advances on Pending Transactions

In July 2016, we received a cash investment of $1,580,000 from two investors to purchase convertible promissory notes of $1,280,000 and $300,000, with a conversion price of $0.40 per share, with warrants to purchase one share of common stock for every three shares of common stock issuable upon conversion of the notes. The notes mature one year from the date of issuance and carry a 10% interest rate, which is due at maturity. The conversion of the notes to shares is subject to shareholder approval. The funds from these transactions is to be used to continue drilling activities, fund expenses to be incurred in connection with completion of Royale's proposed merger with Matrix Oil Corporation and for general corporate purposes. Both of these negotiations are expected to conclude in the third quarter of 2017 and as such were included as Cash Advances on Pending Transactions as March 31, 2017.

Recently Issued Accounting Pronouncements

The Company has reviewed the updates issued by the Financial Accounting Standards Board (FASB) during the quarter ended March 31, 2017:

ASU 2017-01: Business Combinations (Topic 805) – Clarifying the Definition of a Business

In January 2017, FASB issued ASU 2017-01. The objective of ASU 2017-01 is to clarify the definition of a business by adding guidance on how entities should evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 will be effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods in the year of adoption. Early adoption is permitted for any interim or annual period. The Company is in the process of determining the impact that the implementation of ASU 2017-01 will have on the Company's financial statements.

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ASU 2016-02: Leases (Topic 842)

In February 2016, FASB issued ASU 2016-02 which aims to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing agreements. Entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effects of adopting ASU 2016-02 on its consolidated financial statements but the adoption is not expected to have a significant impact on the Company's consolidated financial statements.

ASU 2016-09: Compensation—Stock Compensation (Topic 718): Improvements to Employee Share- Based Payment Accounting

In March 2016, FASB issued ASU 2016-09 which amends several aspects of the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. If early adopted, an entity must adopt all of the amendments in the same period. The Company is currently evaluating the impact of the adoption of ASU 2016-09 on the Company's financial statements.

NOTE 2 – LOSS PER SHARE

Basic and diluted loss per share are calculated as follows:

	For the Three Months ended March 31, 2017		
	Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic Loss Per Share:			
Net loss available to common stock	$(987,644)	21,835,606	$ (0.05)
Diluted Loss Per Share:			
Effect of dilutive securities and stock options	-	-	-
Net loss available to common stock	$(987,644)	21,835,606	$ (0.05)

	For the Three Months ended March 31, 2016		
	Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic Loss Per Share:			
Net loss available to common stock	$(624,320)	17,049,067	$ (0.04)
Diluted Loss Per Share:			
Effect of dilutive securities and stock options	-	-	-
Net loss available to common stock	$(624,320)	17,049,067	$ (0.04)

For the three months ended March 31, 2017 and 2016, Royale Energy had dilutive securities of 0 and 23,331, respectively. These securities were not included in the dilutive loss per share due to their antidilutive nature.

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NOTE 3 – OIL AND GAS PROPERTIES, EQUIPMENT AND FIXTURES

Oil and gas properties, equipment and fixtures consist of the following:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Oil and Gas		
Producing properties, including drilling costs	$3,755,705	$3,755,705
Undeveloped properties	277,832	307,158
Lease and well equipment	4,122,178	4,128,178
	8,155,715	8,191,041
Accumulated depletion, depreciation & amortization	(6,507,196)	(6,468,279)
	1,648,519	1,722,762
Commercial and Other		
Vehicles	40,061	40,061
Furniture and equipment	1,089,648	1,089,648
	1,129,709	1,129,709
Accumulated depreciation	(1,121,392)	(1,119,047)
	8,317	10,662
	$1,656,836	$1,733,424

The guidance set forth in the Continued Capitalization of Exploratory Well Costs paragraph of the Extractive Activities Topic of the FASB Accounting Standards Codification requires that we evaluate all existing capitalized exploratory well costs and disclose the extent to which any such capitalized costs have become impaired and are expensed or reclassified during a fiscal period. We did not make any additions to capitalized exploratory well costs pending a determination of proved reserves during the periods in 2017 or 2016.

NOTE 4 – INCOME TAXES

Deferred tax assets and liabilities reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. At the end of 2015, management reviewed the reliability of the Company's net deferred tax assets, and due to the Company's continued cumulative losses in recent years, Royale and it management concluded it is not "more-likely-than-not" its deferred tax assets will be realized. As a result, the Company will continue to record a full valuation allowance against the deferred tax assets in 2016.

A reconciliation of Royale Energy's provision for income taxes and the amount computed by applying the statutory income tax rates at March 31, 2017 and 2016, respectively, to pretax income is as follows:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016

Tax benefit computed at statutory rate of 34%	$(335,799)	$(212,269)
Increase (decrease) in taxes resulting from:		
State tax / percentage depletion / other		
Other non-deductible expenses	99	140
Change in valuation allowance	335,700	212,129
Provision (benefit)	$-	$-

NOTE 5 – SUBSEQUENT EVENTS

On June {30}, 2017, the parties to the merger agreement with Matrix Oil Management Corporation extended the outside termination date for the merger from June 30 to September 30, 2017.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

In addition to historical information contained herein, this discussion contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, subject to various risks and uncertainties that could cause our actual results to differ materially from those in the "forward-looking" statements. While we believe our forward looking statements are based upon reasonable assumptions, there are factors that are difficult to predict and that are influenced by economic and other conditions beyond our control. Investors are directed to consider such risks and other uncertainties discussed in documents filed by the Company with the Securities and Exchange Commission.

Going Concern

At March 31, 2017, the Company has an accumulated deficit of $46,766,165, a working capital deficiency of $6,835,642 and a stockholders' deficit of $5,525,716. As a result, our financial statements include a "going concern qualification" reflecting substantial doubt as to our ability to continue as a going concern. We are seeking to merge with Matrix to increase efficiency and reduce costs to both companies, thereby allowing a return to positive cash flow. We have no commitments to provide any additional financing and there is no guarantee that we will be able to secure additional financing on acceptable terms, or at all, if needed to fully fund our 2017 drilling budget and to support future operations.

Results of Operations

For the three months ended March 31, 2017, we had a net loss of $987,644, a $363,324 or 58.2% difference when compared to the net loss of $624,320 during the first quarter of 2016. This difference was mainly due to higher legal and accounting fees related to the proposed Matrix merger. Total revenues for the first quarter in 2017 were $274,398, a decrease of $12,560 or 4.4% from the total revenues of $286,958 during the period in 2016. The lower revenues were mainly due to reduced supervisory fees during the quarter in 2017, when compared to 2016, due to a decrease in the number of wells operated by the Company.

In the first quarter of 2017, revenues from oil and gas production increased $53,226 or 39.7% to $187,343 from the 2016 first quarter revenues of $134,117. This increase was due to higher natural gas commodity prices. The net sales volume of natural gas for the quarter ended March 31, 2017, was approximately 59,187 Mcf with an average price of $3.13 per Mcf, versus 68,336 Mcf with an average price of $1.96 per Mcf for the first quarter of 2016. This represents a decrease in net sales volume of 9,149 Mcf or 13.4%. The decrease in production volume was due to the sale of our Victor Ranch field interests in 2016, which had an effective date of September 1, 2016 and to the natural declines of our existing wells.

Oil and natural gas lease operating expenses decreased by $78,514 or 42.4%, to $106,621 for the quarter ended March 31, 2017, from $185,135 for the same quarter in 2016. This decrease was mainly due to the sale of our Victor Ranch field interests in 2016 which reduced overhead, pumping and compression costs during the quarter in 2017.

The aggregate of supervisory fees and other income was $87,055 for quarter ended March 31, 2017, a decrease of $65,786 or 43.0% from $152,841 during the same period in 2016. This decrease was due to lower supervisory overhead fees in the first quarter of 2017 due to the sale of our Victor Ranch field interests in 2016.

Depreciation, depletion and amortization expense decreased to $46,840 from $77,183, a decrease of $30,343 or 39.3% for the quarter ended March 31, 2017, as compared to the same period in 2016. The depletion rate is calculated using production as a percentage of reserves. This decrease in depreciation expense was due to a lower depletion rate as reserve volumes were higher at the end of 2016 and due to a lower asset base due to the sale of our Victor Ranch field interests in 2016.

General and administrative expenses decreased by $67,791 or 10.7% from $632,777 for the quarter ended March 31, 2016, to $564,986 for the same period in 2017, due mainly to employee related cost reduction measures and reductions in outside consulting services. Marketing expense for the quarter ended March 31, 2017, increased $9,767, or 22.0%, to $54,148, compared to $44,381 for the same period in 2016. Marketing expense varies from period to period according to the number of marketing events attended by personnel and their associated costs.

Legal and accounting expense increased to $479,294 for the period, compared to $159,637 for the same period in 2016, a $319,657 or 200.2% increase. This increase was primarily due to legal and accounting fees related to the proposed Matrix merger.

During the quarter ended March 31, 2017, we recorded a gain of $73,128 on the settlement of accounts payable. We periodically review our proved properties for impairment on a field-by-field basis and charge impairments of value to the expense. During the first quarter in 2017, we recorded a lease impairment of $37,369 on various lease and land costs that were no longer viable. There were no lease impairments recorded during the quarter in 2016. During the first quarters in 2017 and 2016, we recorded write downs of $6,000 and $10,589, respectively, on certain well equipment that was no longer useable.

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At March 31, 2017, Royale Energy had a Deferred Drilling Obligation of $8,594,001. During the first quarter of 2017, we were unable to drill new wells due to wet weather conditions in our Northern California fields. At March 31, 2016, Royale Energy had a Deferred Drilling Obligation of $7,199,443. During the first quarter of 2016, we disposed of $1,691,085 of these obligations upon completing the drilling of one well, while incurring expenses of $1,471,011, resulting in a gain of $220,074.

Interest expense increased to $39,912 for the quarter ended March 31, 2017, from $21,650 for the same period in 2016, an $18,262 or 84.4% increase. This increase resulted from interest accrued on its convertible promissory notes issued in August 2016. The interest during the quarter in 2016 was primarily related to the outstanding loan for the corporate headquarters. Further details concerning Royale's notes payable can be found in Capital Resources and Liquidity, below.

Capital Resources and Liquidity

At March 31, 2017, Royale Energy had current assets totaling $5,738,498 and current liabilities totaling $12,574,140 a $6,835,642 working capital deficit. We had cash at March 31, 2017, of $4,936,668 compared to $4,994,598 at December 31, 2016.

Ordinarily, we fund our operations and cash needs from our available credit and cash flows generated from operations. We believe that, should the merger be consummated, for the foreseeable future we will be able to meet our liquidity demands. However, should the merger fail to close, there is doubt as to the ability to meet liquidity demands through cash flow or ongoing operations. In that event, the Company will seek alternative capital sources through additional sales of equity or debt securities.

At March 31, 2017, our other receivables, which consist of receivables from direct working interest investors and industry partners, totaled $530,233, compared to $676,647 at December 31, 2016, a $146,414 or 21.6% decrease. This decrease was due to well revenues and accounts payable settlement credits applied to the outstanding receivables. At March 31, 2017, Royale's revenue receivable was $188,682, a decrease of $114,846 or 37.8%, compared to $303,528 at December 31, 2016, due to lower oil and gas production volumes when compared to year end 2016. At March 31, 2017, our accounts payable and accrued expenses totaled $2,400,139, a decrease of $69,106 or 2.8% from the accounts payable at December 31, 2016 of $2,469,245, mainly due to payments and settlements of trade accounts payable during the quarter in 2017.

In July 2016, we received a cash investment of $1,580,000 from two investors to purchase convertible promissory notes of $1,280,000 and $300,000, with a conversion price of $0.40 per share, with warrants to purchase one share of common stock for every three shares of common stock issuable upon conversion of the notes. The notes mature one year from the date of issuance and carry a 10% interest rate, which is due at maturity. The conversion of the notes to shares is subject to shareholder approval. The funds from these transactions is to be used to continue drilling activities, fund expenses to be incurred in connection with completion of Royale's proposed merger with Matrix Oil Corporation and for general corporate purposes. Both of these negotiations are expected to conclude in the third quarter of 2017 and as such were included as Cash Advances on Pending Transactions as March 31, 2017.
In December of 2013, Royale purchased an office building for $2,000,000, of which $500,000 was paid in cash on the date of purchase, and $1,500,000 was borrowed from AmericanWest Bank, with a note secured by the property being purchased. The note carried an interest rate of 5.75% until paid in full. In February 2016, Royale Energy entered into a purchase and sale agreement for the sale of the office building for $2.5 million. In June 2016, the sale of the building was completed which resulted in a gain of $198,975 and the related principal and interest payments were paid in full.

Operating Activities. Net cash used by operating activities totaled $749,888 and $276,133 for the three month periods ended March 31, 2017 and 2016, respectively. This $473,755 or 171.6% increase in cash used was mainly due to higher costs related to the proposed Matrix merger. During the quarter in 2016, executive management and directors received 1,254,806 shares of the Company's common stock valued at $182,187.

Investing Activities. Net cash provided by investing activities for the three month periods ended March 31, 2017 was $691,958 compared to net cash used by investing activities of $936,811 for the March 31, 2016 period. The main difference in cash was the drilling of a well during the quarter in 2016. The cash provided during the period in 2017 was mainly from direct working interest investor turnkey drilling investments.

Financing Activities. Net cash used by financing activities totaled $7,579 in the first quarter of 2016, which were principal payments on the Company's long-term debt associated with its building note.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our major market risk exposure relates to pricing of oil and gas production. The prices we receive for oil and gas are closely related to worldwide market prices for crude oil and local spot prices paid for natural gas production. Prices have been volatile for the last several years, and we expect that volatility to continue. Monthly average natural gas prices ranged from a low of $3.13 per Mcf to a high of $3.62 per Mcf for the first three months of 2017. We have not entered into any hedging or derivative agreements to limit our exposure to changes in oil and gas prices or interest rates.

Item 4. Controls and Procedures

As of March 31, 2017, an evaluation was performed under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures. These controls and procedures are based on the definition of disclosure controls and procedures in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Management identified an internal control deficiency that represents a material weakness in or internal control over financial reporting as of March 31, 2017, in that, certain legal documents, such as debt and equity financing transactions, during the fiscal year were not supported by fully executed agreements.

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

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

Except for the actions described above that were taken to address the material weaknesses, there were no changes in our internal controls during the three months ended March 31, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Not applicable to smaller reporting companies.

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

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

Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
31.3	Rule 13a-14(a)/15d-14(a) Certification
32.1	18 U.S.C. § 1350 Certification
32.2	18 U.S.C. § 1350 Certification
32.3	18 U.S.C. § 1350 Certification
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	ROYALE ENERGY, INC.
Date: July 24, 2017	/s/ Jonathan Gregory Jonathan Gregory, Chief Executive Officer
Date: July 24, 2017	/s/ Donald H. Hosmer Donald H. Hosmer, President of Business Development
Date: July 24, 2017	/s/ Stephen M. Hosmer Stephen M. Hosmer, President and Chief Financial Officer