

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-KSB/A

Amendment No. 1 to Form 10-KSB

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2001

Commission File No. 0-22750

ROYALE ENERGY, INC.

(Name of Small Business Issuer in its charter)

California

(State or other jurisdiction of
incorporation or organization)

33-0224120

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

**7676 Hazard Center Drive, Suite 1500
San Diego, CA 92108**

(Address of principal executive offices)

Issuer's telephone number: **619-881-2800**

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

None

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

Common Stock, par value \$.01 per share

(Title of Class)

Check whether the issuer (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 X; No _____

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

State issuer's revenues for its most recent fiscal year: \$15,858,273.

At December 31, 2001, there were 3,057,028 outstanding shares of registrant's Common Stock held by non-affiliates, with an aggregate market value of approximately \$19,473,268, based on the closing Nasdaq price on that date.

At December 31, 2001, a total of 4,386,354 shares of registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

Exhibit Index appears on page 20.

TABLE OF CONTENTS

Part I		
Item 1.	Description of Business	1
	Plan of Business	2
	Competition, Markets and Regulation	4
Item 2.	Description of Property	5
	Northern California	6
	Developed and Undeveloped Leasehold Acreage	6
	Drilling Activities	6
	Production	7
	Net Proved Oil and Natural Gas Reserves	7
Item 3.	Legal Proceedings	8
Item 4.	Submission of Matters to a Vote of Security Holders	9
		9
Part II		
Item 5.	Market Price of Royale Energy's Common Stock and Related Stockholder Matters	9
	Dividends	9
	No Recent Sales of Equity Securities	9
Item 6.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
	Critical Accounting Policies	10
	Results of Operations for the Twelve Months Ended December 31, 2001, as Compared to the Twelve Months Ended December 31, 2000	12
	Capital Resources and Liquidity	14
Item 7.	Financial Statements and Supplementary Data	15
Part III		
Item 9.	Directors, Executive Officers, Promoters and Control Persons, Compliance with Section 16(a) of the Exchange Act	15
	Compliance with Section 16(a) of the Exchange Act	17
Item 10.	Executive Compensation	18
	No Stock Options Were Granted in 2001	19
	Aggregated 2001 Option Exercises and Year-End Values	19
	Compensation of Directors	19
Item 11.	Security Ownership of Certain Beneficial Owners and Management	19
	Common Stock	20
	Preferred Stock	21
Item 12.	Certain Relationships and Related Transactions	22
Item 13.	Exhibits, Lists, and Reports on Form 8-K	23
Signatures		24
Financial Statements		F-1

ROYALE ENERGY, INC.

PART I

Item 1. Description of Business

Royale Energy, Inc. ("Royale Energy"), is an independent oil and natural gas producer. Royale Energy's principal lines of business are the production and sale of 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 Energy. Royale Energy was incorporated in California in 1986 and began operations in 1988. Royale Energy's Common Stock is traded on the Nasdaq National Market System (symbol ROYL). On March 23, 2002, Royale Energy had 17 full time employees.

Royale Energy owns wells and leases located mainly in the Sacramento Basin and San Joaquin Basin in California. Royale Energy usually sells a portion of the working interest in each lease that it acquires to third party investors and retains a portion of the prospect for its own account. Selling part of the working interest to others allows Royale Energy 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 Energy owned the whole working interest and paid all drilling and development costs of each prospect itself. Royale Energy generally sells working interests in its prospects to accredited investors in exempt securities offerings. The prospects are bundled into multi-well investments, which permits the third party investors to diversify their investments by investing in several wells at once instead of investing in single well prospects.

During its fiscal year ended December 31, 2001, Royale Energy continued to explore and develop natural gas properties in northern California. Royale Energy drilled eleven wells in 2001, seven of which are currently commercially productive wells. One well is waiting on completion. In 2001, four previously drilled wells were "shut-in," which means that the wellhead valves were closed, shutting off production. The shut-in wells were awaiting further equipment or production arrangements to begin or recommence operations, such as production equipment or pipeline easements. Royale Energy's estimated total natural gas reserves decreased from approximately 16.7 Bcf (billion cubic feet) at December 31, 2000 to approximately 13.2 Bcf at December 31, 2001. According to the reserve report furnished to Royale Energy by WZI, Inc., Royale Energy's independent petroleum engineers, the net present value of its proved developed and undeveloped reserves was more than \$13.6 million at December 31, 2001, based on natural gas prices ranging from \$2.41 per Mcf to \$2.85 per Mcf. Of course, net present 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 our reserves. The engineer determined our standard measure of discounted future net cash flows at December 31, 2001, to be \$9,013,270.

Royale Energy reported gross revenues in connection with the drilling of wells on a "turnkey contract" basis, or sales of fractional interests in undeveloped wells, in the amount of \$6,703,452 for the year ended December 31, 2001, which represents 42.3% of its total revenues for the year.

In the year ended 2000, Royale Energy reported \$4,792,151 gross revenues for the year, representing 41.0% of Royale Energy's total revenues for that year. These amounts are offset by drilling expenses and development costs of \$3,065,747 in 2001, and \$1,975,242 in 2000. In addition to Royale Energy's own engineering staff, Royale Energy hires independent contractors to drill, test, complete and equip the wells that it drills.

Approximately 53.3% of Royale Energy's total revenue for the year ended December 31, 2001 came from oil and natural gas sales from production of its wells (\$8,452,282). In 2000, this amount was \$6,194,451, which represented 53.0% of Royale Energy's total revenues.

Plan of Business

Royale Energy acquires interests in oil and natural gas reserves and sponsors private joint ventures. Royale Energy believes that its shareholders are better served by diversification of its investments among individual drilling projects. Through its sale of joint ventures, Royale Energy 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 Energy decreases the amount of its investment 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 Energy drills or participates in the drilling of development and exploratory oil and natural gas wells on its property. Royale Energy pays its proportionate share of the actual cost of drilling, testing, and completing the project to the extent that it retains all or any portion of the working interest.

Royale Energy also may sell fractional interests in undeveloped wells to finance part of the drilling cost. A drilling contract that calls for a drilling contractor to drill a well, for a fixed price, to a specified depth is called a "turnkey contract." When Royale Energy sells fractional interests 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 Energy recognizes gross revenue for the amount paid by the purchaser and agrees to pay the expense of drilling and development of the well for the participants. Sometimes the actual drilling and development costs are less than the fixed amount that Royale Energy received from the fractional interest sale.

When Royale Energy authorizes a turnkey drilling project for sale, a calculation is made to estimate the pre-drilling costs and the drilling costs. A percentage for each is calculated. The turnkey drilling project is then sold to investors who execute a contract with Royale Energy. In this agreement, the investor agrees to share in the pre-drilling costs, which include lease costs, geological and geophysical costs, and other costs as required so that the drilling of the project can proceed. As stated in the contract, the percentage of the pre-drilling costs that the investor

contributes is non-refundable, and thus on its financial statements, Royale Energy recognizes these non-refundable payments as revenue since the pre-drilling costs have commenced. The remaining investment is held and reported by Royale Energy as deferred revenue until the well is spudded (begun). The deferred revenue is referred to as "remaining funds" in Royale Energy's disclosure. See Note 1 to Royale Energy's Financial Statements on page F-7. Royale Energy maintains internal records of the expenditure of each investor's funds for drilling projects.

Royale Energy generally operates the wells it completes. As operator, it receives fees set by industry standards from the owners of fractional interests in the wells and from expense reimbursements. For the year ended December 31, 2001, Royale Energy earned gross revenues from operation of the wells in the amount of \$702,539, representing 4.4% of its total revenues on a consolidated basis for that year. In 2000, the amount was \$700,750, which represented 6.0% of the consolidated total revenues. As of December 31, 2001, Royale Energy holds working interests in 69 gas wells in California, with locations ranging from Tehama County in the north to Kern County in the south.

Royale Energy's business does not depend on a single customer or a few customers and Royale Energy's management does not believe this will change in the foreseeable future. Oil and natural gas purchasers are readily available in today's markets, and Royale Energy does not believe that the loss of any customer would materially affect its business or its ability to find ready purchasers for its oil and gas production at current market prices.

Natural gas demand and the prices paid for gas are seasonal. In recent years, natural gas demand and prices in Northern California have decreased during the fall and winter and risen in the spring and summer, reflecting increased electricity consumption. In the winter and spring of 2001, a gas shortage in Northern California caused dramatic rises in the price Royale Energy received for its gas production. The high prices in the first half of 2001 materially increased Royale Energy's revenues from gas production and sales in that period. Gas prices fell again in the summer of 2001. Discussions of a few natural gas price regulations, including price caps, have taken place at the state and federal levels. The fluctuations in gas prices and possible new regulations create uncertainty about whether Royale Energy can continue to produce gas for a profit. Royale Energy does not expect natural gas prices to return to their winter 2001 levels in the foreseeable future.

Affiliated Entities

On December 31, 2001, Royale Petroleum Corporation ("RPC") owned 31.5% of Royale Energy's Common Stock (including rights to purchase shares pursuant to warrants). RPC is owned equally by Donald H. Hosmer and Stephen M. Hosmer, who are brothers. Donald H. Hosmer is president and director of Royale Energy, and Stephen Hosmer is chief financial officer and director of Royale Energy. Donald H. and Stephen M. Hosmer are sons of Harry E. Hosmer, chairman of Royale Energy's board of directors. See, Security Ownership of Certain Beneficial Owners and Management on page 17. RPC is a predecessor and affiliate of Royale Energy. RPC is a Delaware corporation formed in 1985.

Royale Energy had no subsidiaries at December 31, 2001.

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 Energy sells, is also very competitive. Royale Energy encounters competition from other oil and natural gas producers, as well as from other entities which invest in oil and gas for their own account or for others, and many of these companies are substantially larger than Royale Energy.

Markets

Market factors affect the quantities of oil and natural gas production and the price Royale Energy 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 Energy's operations. Many states in which Royale Energy 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 the statutes, generally are intended to prevent waste of oil and natural gas, and to protect correlative rights to produce oil and natural gas produced by assigning allowable rates of production to each well or proration unit.

The exploration, development, production and processing of oil and natural gas are subject to various federal and state laws and regulations to protect the environment. Various federal and state agencies are considering, and some have adopted, other laws and regulations regarding environmental controls that could increase the cost of doing business. These laws and regulations may require: the acquisition of a permit by operators before drilling commences; the prohibition of drilling activities on certain lands lying within wilderness areas or where pollution arises; and the imposition of substantial liabilities for pollution resulting from drilling operations, particularly operations in offshore waters or on submerged lands. The cost of oil and natural gas development and production also may increase because of the cost of compliance with such legislation and regulations, together with any penalties resulting from failing to comply with the legislation and regulations. Ultimately, Royale Energy may bear some of these costs.

Presently, Royale Energy does not anticipate that compliance with federal, state and local environmental regulations will have a material adverse effect on capital expenditures, earnings, or its competitive position in the oil and natural gas industry; however, changes in the laws, rules or regulations, or the interpretation thereof, could have a materially adverse effect on Royale Energy's financial condition or results of operation.

Royale Energy files quarterly, yearly and other reports with the Securities Exchange Commission. You may obtain a copy of any materials filed by Royale Energy with the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 or by calling 1-800-SEC-0300. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Item 2. Description of Property

Since 1993, Royale Energy has concentrated on development of properties in the Sacramento Basin and the San Joaquin Basin of Northern California. In 2001, Royale Energy drilled eleven wells in northern California, eight of which are currently commercially productive wells. There are nine shut-in wells that Royale Energy plans to return to production. In 2001, Royale Energy performed perforating programs in three wells to recover gas reserves that were previously unrecoverable. There are plans to perforate four other wells to recover gas.

Following industry standards, Royale Energy generally acquires oil and natural gas acreage without warranty of title except as to claims made by, through, or under the transferor. In these cases, Royale Energy 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.

In December of 2000, Royale Energy, Inc. entered into an agreement with Bank One, Texas, NA ("Bank One"), in which Bank One assumed the revolving line of credit that was originally extended to Royale Energy by Hibernia National Bank. Under the terms of the agreement, from time to time, Royale Energy may borrow, repay, and reborrow money from Bank One with a total credit line of \$15,000,000. The maximum allowable amount of each credit request is governed by a formula in the agreement. The initial maximum allowable amount was \$6,000,000. At December 31, 2001, Royale Energy owed \$2,000,000 under this credit line.

Following is a discussion of Royale Energy's significant oil and natural gas properties. Reserves at December 31, 2001, for each property discussed below, have been determined by WZI, Inc., registered professional petroleum engineers, in accordance with its report submitted to Royale Energy on March 6, 2002 (the most recent report available).

Northern California

Royale Energy owns lease interests in 12 gas fields with locations ranging from Tehama County in the north to Kern County in the south, in the Sacramento and San Joaquin Basins in northern California. At December 31, 2001, Royale Energy operated 69 wells in Northern California, and its estimated total proved developed and undeveloped gas reserves in Northern California were approximately 13.2 Bcf, according to Royale Energy's independently prepared reserve report.

Developed and Undeveloped Leasehold Acreage

As of December 31, 2001, Royale Energy owned leasehold interests in the following developed and undeveloped properties in both gross and net acreage.

	<u>Developed</u>		<u>Undeveloped</u>	
	<u>Gross Acres</u>	<u>Net Acres</u>	<u>Gross Acres</u>	<u>Net Acres</u>
California	15,817.56	11,582.27	1,027.65	913.39
All other States	875.00	455.50	800.00	595.90
Total	16,692.56	12,037.77	1,827.65	1,509.29

Drilling Activities

The following table sets forth Royale Energy's drilling activities during the years ended December 31, 1999, 2000, and 2001. All wells are located in the Continental U.S., in California, Texas, and Oklahoma.

<u>Year</u>	<u>Type of Well^(a)</u>	<u>Gross Wells^(b)</u>			<u>Net Wells^(c)</u>	
		<u>Total</u>	<u>Producing^(c)</u>	<u>Dry^(d)</u>	<u>Producing^(c)</u>	<u>Dry^(d)</u>
1999	Exploratory	3	1	2	.4320	.9653
	Developmental	9	6	3	1.8156	1.0758
2000	Exploratory	2	2	-	.4104	-
	Developmental	7	6	1	2.7971	.5295
2001	Exploratory	5	3	2	1.4311	.6682
	Developmental	6	5	1	1.8565	.6082

(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 Energy owns an interest. Royale Energy's interest in these wells may range from 1% to 100%.

(c) A producing well is one that is producing 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 paying 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.

As of December 31, 2001, Royale Energy had 52 gross (30.57 net) currently producing natural gas wells.

Production

The following table summarizes, for the periods indicated, Royale Energy'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 10 to 1 ratio of the price per barrel of oil to the price per Mcf of natural gas. "Net" production is production that Royale Energy 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 Energy 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.

	<u>2001</u>	<u>2000</u>	<u>1999</u>
NET VOLUME			
Oil (Bbl)	1,893	596	2,215
Gas (Mcf)	1,371,286	1,161,513	1,331,887
Mcfe	1,390,216	1,167,473	1,354,037
AVERAGE SALES PRICE			
Oil (Bbl)	\$ 26.55	\$ 23.59	\$ 16.30
Gas (Mcf)	\$ 6.12	\$ 5.32	\$ 2.34
Net Production Costs & Taxes	\$ 1,266,245	\$ 936,841	\$ 896,321
Lifting Costs (per Mcfe)	\$ 0.91	\$ 0.60	\$ 0.49

Net Proved Oil and Natural Gas Reserves

As of December 31, 2001, Royale Energy had proved developed reserves of 11,245 MMcf and total proved reserves of 13,161 MMcf of natural gas on all of the properties Royale Energy leases. For the same period, Royale Energy also had proved developed oil reserves of 8 Mbbl and total proved oil reserves of 8 Mbbl on the same properties.

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.

Common assumptions include such matters as the areal extent and average thickness of a particular reservoir, the average porosity and permeability of the reservoir, the anticipated future production from existing and future wells, future development and production costs and the ultimate hydrocarbon recovery percentage. As a result, oil and gas reserve estimates and discounted present value estimates are frequently revised in subsequent periods to reflect production data obtained after the date of the original estimate. If the reserve estimates are inaccurate, production rates may decline more rapidly than anticipated, and future production revenues may be less than estimated.

Additional data relating to Royale Energy's oil and natural gas properties is disclosed in Supplemental Information About Oil and Gas Producing Activities (Unaudited), attached to Royale Energy's Financial Statements, beginning on page F-1. The oil and natural gas reserve information disclosed in the supplement to the financial statements are based upon the reserve reports for the years ended December 31, 2001 and 2000, prepared by Royale Energy's independent reserve engineering consultants.

Item 3. Legal Proceedings

Buck, et al., v. Royale Energy, et al., No. C 00-CV-1499-K (NLS), U.S. District Court, Southern District of California. On December 10, 1999, a group of 16 investors in drilling projects sponsored by Royale Energy from 1994 to 1998 filed suit against Royale Energy and certain of its officers and former officers in U.S. District Court for the Northern District of California, alleging fraud, negligent misrepresentation, breach of fiduciary duties and other related claims in connection with the sales of working interests in those projects. The complaint generally states that the defendants failed to adequately disclose the company's track record regarding previously drilled wells and makes other general statements about misconduct which are not, in Royale Energy's view, supported by specific factual allegations. The suit seeks an unspecified amount of damages, restitution of amounts the plaintiffs invested, and punitive damages. In July 2000, the court granted Royale Energy's motion to transfer the case to the U.S. District Court for the Southern District of California. No discovery has been conducted in the case. No discovery has ever been conducted in the case since it was filed in December 1999. If the plaintiffs elect to pursue this case, Royale Energy will contend that the plaintiffs suffered no damages, that their claims are completely without merit and that the complaint fails to state a claim on which relief can be based.

Blue Star Resources, et al., v. Royale Energy, Inc., No. 49460, Superior Court of Tehama County, California. On October 12, 2001, Blue Star Resources, Inc. and others filed suit against Royale Energy for declaratory relief, money damages, and imposition of a constructive trust, seeking a working interest and drilling rights to certain properties covered by a joint operating agreement between plaintiffs and Royale Energy. The dispute is over whether plaintiffs failed to consent to drilling operations that resulted in a commercially productive well drilled by Royale Energy and thereby lost their rights to working interests in the well. The case is set for trial in January 2003. In March 2001, the court dismissed the plaintiffs' motion for partial summary judgment. Royale Energy has sought leave of the court to file a partial summary judgment of its own. The Plaintiffs alleged money damages of more than \$1,000,000.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2001.

PART II**Item 5. Market Price of Royale Energy's Common Stock and Related Stockholder Matters**

Since 1997 Royale Energy's Common Stock has been traded on the Nasdaq National Market System under the symbol "ROYL." As of December 31, 2001, 4,386,354 shares of Royale Energy's Common Stock were held by approximately 2,800 shareholders. The following table reflects high and low quarterly sales prices from January 2000 through December 2001.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
2000	3.125	2.125	3.3125	2.25	7.00	2.4375	7.4375	2.75
						5		
2001	7.88	5.50	21.00	6.56	17.19	6.70	9.50	4.02

Dividends

On June 15, 2001, Royale Energy paid a 15% stock dividend to its security holders of record on May 25, 2001. All common shareholders received the dividend in common shares, equal to 15% of their share holdings as of the record date. The dividend also increased by 15%, the number of shares of common stock issuable on exercise of all outstanding warrants and options and on conversion of all outstanding preferred shares. As a result of the dividend, the number of outstanding common shares increased by 569,147 shares (not including shares that may be issued on the exercise of options and warrants and on the conversion of preferred stock).

On March 18, 2002, Royale Energy's board of directors declared another 15% stock dividend to its security holders of record as of May 31, 2002. The dividend will increase the number of shares of common stock outstanding and those issuable on exercise of all outstanding warrants and options and on conversion of all outstanding shares. Based on the number of shares outstanding on March 18, 2002, (4,373,514 shares) the dividend would increase the number of outstanding common shares by 656,027 shares (not including shares that may be issued on the exercise of options and warrants and on the conversion of preferred stock).

No Recent Sales of Equity Securities

Royale Energy sold no equity securities in the fourth quarter of 2001.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of operations

The following discussion should be read in conjunction with Royale Energy's Financial Statements and Notes thereto and other financial information relating to Royale Energy included elsewhere in this document.

For the past seven years, Royale Energy has primarily acquired and developed producing and non-producing natural gas properties in Northern California. The most significant factors affecting the results of operations are (i) changes in the sales price of natural gas, (ii) recording of turnkey drilling revenues and the associated drilling expense, and (iii) the change in natural gas reserves owned by Royale Energy.

Critical Accounting Policies

Royale Energy's financial statements include its *pro rata* ownership of wells. Royale Energy usually sells a portion of the working interest in each lease that it acquires to third party investors and retains a portion of the prospect for its own account. Royale Energy generally retains about a 30% working interest. All results, successful or not, are included at its *pro rata* ownership amounts: revenue, expenses, assets, and liabilities.

Royale Energy has developed two profit-oriented segments of business: marketing Direct Working Interests (DWI), and producing oil and gas.

Revenue Recognition

Royale Energy derives DWI revenue from sales of working interests to high net worth individuals. The DWI revenue is divided into payments for pre-drilling costs and for drilling costs. DWI investments are non-refundable. Royale Energy recognizes the pre-drilling revenue portion when the investor deposits money with Royale Energy. The company holds the remaining investment in trust as deferred revenue until the well is spudded (begun). Occasionally, spudding is delayed due to the permitting process, or drilling rig availability. At June 30, 2002 and December 31, 2001, Royale Energy had deferred drilling revenue of \$1,955,380 and \$2,740,991, respectively. Gross profit from this line of business decreased from 54% in 2001 to 35% in the six months ended June 30, 2002.

The second business segment is oil and gas production. Over 80% of Royale Energy's successful wells produce gas in Northern California. Natural gas flows from the wells into gathering line systems, which are equipped occasionally with compressor systems, which in turn flow into metered customer pipelines. Monthly, customers measure and price gas flows and compute the compensation due to Royale Energy and other working interest owners. Royale Energy operates virtually all of its own wells and receives industry approved operator fees.

Royale Energy follows the successful efforts method of accounting for oil and gas properties. Costs are accumulated on a field by field basis. These costs include pre-drilling activities such as delay and leasing rents paid, drilling costs, and post-drilling tangible costs. Costs of unproved properties are excluded from amortization until the properties are evaluated. Royale Energy regularly evaluates its unproved properties on a field by field basis for possible impairment. Due to the unpredictable nature of exploration drilling activities, the amount and timing of impairment expenses are difficult to predict with any certainty.

The successful efforts method of accounting uses proved reserves in the calculation of depletion, depreciation and amortization. Proved reserves are estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions. Proved reserves cannot be measured exactly, and the estimation of reserves involves judgment determinations. Reserve estimates must be reviewed and adjusted periodically to reflect additional information gained from reservoir performance, new geological and geophysical data and economic changes. The estimates are based on current technology and economic conditions, and Royale Energy considers such estimates to be reasonable and consistent with current knowledge of the characteristics and extent of production. The estimates include only those amounts considered to be proved reserves and do not include additional amounts which may result from new discoveries in the future, or from application of secondary and tertiary recovery processes where facilities are not in place or for which transportation and/or marketing contracts are not in place. Changes in previous estimates of proved reserves result from new information obtained from production history and changes in economic factors.

Impairment Of Assets

Producing property costs are evaluated for impairment and reduced to fair value if the sum of expected undiscounted future cash flows is less than net book value pursuant to Statement of Financial Accounting Standard No. 121 (SFAS 121) "Accounting for the Impairment of Long-Lived Assets and for the Long-Lived Assets to Be Disposed Of." Impairment of non-producing leasehold costs and undeveloped mineral and royalty interests are assessed periodically on a property-by-property basis, and any impairment in value is currently charged to expense.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The most significant estimates pertain to proved oil, plant products and gas reserve volumes and the future development costs. Actual results could differ from those estimates.

Deferred income taxes reflect the net tax effects, calculated at currently enacted rates, of (a) future deductible/taxable amounts attributable to events that have been recognized on a cumulative basis in the financial statements or income tax returns, and (b) operating loss and tax credit carry forwards. A valuation allowance for deferred tax assets is recorded when it is more likely than not that the benefit from the deferred tax asset will not be realized.

Results of Operations for the Twelve Months Ended December 31, 2001, as Compared to the Twelve Months Ended December 31, 2000

For the year ended December 31, 2001, Royale Energy achieved a net profit of \$3,746,524, a \$686,389 or 22.4% increase over the net profit of \$3,060,135 achieved during the year in 2000. Royale Energy's management attribute this to an increase in oil and gas sales resulting from increased production and higher natural gas prices, and an increase in turnkey drilling revenues. Total revenues for the year ended December 31, 2001 were \$15,858,273, a \$4,170,921 or 35.7% increase from the total revenues in 2000 of \$11,687,352, again as a result of higher turnkey drilling revenues and natural gas sales. For the year in 2001, Royale Energy's net operating profit was \$4,171,514, an increase of \$605,621 or 17% over the net operating profit of \$3,565,893 during the year in 2000.

Oil and gas revenues for the year ended December 31, 2001, were \$8,452,282 compared to \$6,194,451 for the same period in 2000, which represents a \$2,257,831 or 36.5% increase. This increase in revenues was mainly due to an increase in production and price Royale Energy received for its natural gas production during the year in 2001. The net sales volume for the year ended December 31, 2001, was 1,371,286 Mcf with an average price of \$6.12 per Mcf, versus 1,161,513 Mcf with an average price of \$5.32 per Mcf for 2000, which represents an increase in net sales volume of 209,773 Mcf or 18.1%. The net sales volume for oil and condensate (natural gas liquids) production was 1,893 barrels with an average price of \$26.55 per Bbl for the period ended December 31, 2001, compared to 596 barrels at an average price of \$23.59 per Bbl for the same period in 2000, which represents an increase in net sales volume of 1,297 barrels or 217.6%.

Royale Energy's oil and gas lease operating expenses increased by 35.2% or \$329,404, to \$1,266,245 for the year ended December 31, 2001, from \$936,841 for the same period in 2000. This can be attributed to the increase in the number of wells operated by Royale Energy during the year in 2001 when compared to 2000, due to the wells drilled and placed into production during 2000 and 2001. For 2001, Royale Energy's gross margin on oil and gas production (excluding drilling and development costs) was 85%, compared to 84.9% in 2000.

For the year ended December 31, 2001, turnkey drilling revenues increased \$1,911,301, to \$6,703,452 in 2001 from \$4,792,151 in 2000, or 39.9% for the year. Royale Energy also experienced a \$1,090,505 or 55.2% increase in turnkey drilling and development costs from \$1,975,242 in 2000 to \$3,065,747 in 2001. This increase in turnkey revenues and costs was due to the drilling of more wells and higher drilling costs per well during the year in 2001 when compared to 2000.

Royale Energy's gross margins, or profits, on drilling depend on our ability to accurately estimate the costs associated with the development of projects in which we sell working interests. Costs associated with contract drilling depend on location, well depth, weather, and availability of drilling contractors and equipment. Royale Energy's gross margin on drilling was 54.3% and 58.8% for the years ended December 31, 2001 and 2000, respectively.

Royale Energy's aggregate of supervisory fees and other income was \$702,539 for the year ended December 31, 2001, an increase of \$1,789 (.26%) from \$700,750 during 2000. Supervisory fees are charged in accordance with the Council for Petroleum Accountants Societies (COPAS) policy for reimbursement of expenses associated with the joint accounting for billing, revenue disbursement, and payment of taxes and royalties. These charges are reevaluated each year and adjusted up or down as deemed appropriate by a published report to the industry by Ernst & Young, Public Accountants. Supervisory fees increased \$27,537 or 7.9%, from \$350,371 in 2000 to \$377,908 in 2001.

Depreciation, depletion and amortization expense increased to \$1,282,640 from \$586,907, an increase of \$695,733 (118.5%) for 2001, compared to 2000. This increase mainly resulted from a change in the company's method of reviewing for impairment of long lived assets. In fiscal 2000, Royale Energy restated its 1997 – 2000 financial statements because it changed the method of reviewing for impairment of oil and gas properties from a region by region to field by field basis. The change in impairment analysis caused Royale Energy to increase amounts recorded as lease impairments in fiscal 2000 and 1999. These restatements reduced our depreciation, depletion and amortization expenses for 2000, and also resulted in an increase in our depreciation, depletion and amortization expense for 2001. *See Note 2 to Financial Statements – Restatements.*

Impairment losses of \$2,062,028 and \$1,540,845 were recorded in 2001 and 2000, respectively. Royale Energy performs a periodic review for impairment of proved properties on a field by field basis. Unamortized capital costs are measured on a field basis and are reduced to fair value if it is determined that the sum of expected future net cash flows are less than the net book value. Royale Energy determines if an impairment has occurred through either adverse changes or as a result of its periodic review for impairment. Impairment is measured on discounted cash flows utilizing a discount rate appropriate for risks associated with the related properties or based on fair market values.

Effective December 31, 1998, Royale Energy began to perform a periodic review for impairment on a region by region basis, and our annual reports for the fiscal years ended December 31, 1998, 1999 and 2000 reflected this impairment procedure. In 2001, after the Royale Energy filed its annual report for December 31, 2000, the company determined that it is more appropriate to conduct the impairment analysis on a field by field basis. This resulted in a restatement of the amount of impaired properties in 1998, 1999, and 2000, and in the additional impairment of properties in 2001.

Upon the sale of oil and gas reserves in place, costs less accumulated amortization of such property are removed from the accounts and resulting gain or loss on sale is reflected in operations. Impairment of unproved properties are assessed periodically on the basis of the lowest available unit, either field by field or property-by-property as appropriate, and any impairment in value is currently charged to expense. In addition, capitalized costs of unproved properties are assessed periodically to determine whether their value has been impaired below the capitalized costs. Loss is recognized to the extent that such impairment is indicated. In making these assessments, factors such as exploratory drilling results, future drilling plans, and lease expiration terms are considered. When an entire interest in an unproved property is sold, gain or loss is recognized, taking into consideration any recorded impairment. Upon abandonment of properties, the reserves are deemed fully depleted and any unamortized costs are recorded in the statement of income under impairment expense.

Royale Energy also reevaluated its inventory of geological lease and land costs, which had been previously capitalized, in order to write off those prospects which may be no longer viable. As a result, \$56,806 of previously capitalized costs were written off and recorded as geological and geophysical expense during 2001 compared with \$22,337 written off in 2000, a \$34,469 or 154.3% increase.

General and administration expenses increased by \$508,580, or 29.3%, from \$1,737,201 for the year ended December 31, 2000 to \$2,245,781 for the same period in 2001. Legal and accounting expense increased to \$644,812 for the year, compared to \$635,893 for 2000, an \$8,919 (1.4%) increase. The increase can be attributed to the higher litigation costs during the year in 2001 when compared to 2000. Marketing expense for the year ended December 31, 2001, increased \$376,507 or 54.9%, to \$1,062,700, compared to \$686,193 for 2000. Royale Energy's marketing expense varies from period to period according to the number of marketing events attended by personnel and associated travel costs.

During the year in 2000, Royale Energy extended an existing credit line from a major commercial bank. Because of a marked decrease in borrowings pursuant to this credit line, interest expense decreased to \$54,455 for the year ended December 31, 2001, from \$427,304 for the same period in 2000, a \$372,849 or 87.3% decrease.

Capital Resources and Liquidity

At December 31, 2001, Royale Energy had current assets totaling \$7,352,358 and current liabilities totaling \$6,283,992, a \$1,068,366 working capital reserve. Royale Energy expects to continue to generate sufficient cash from its operations during the year in 2002 to fund its operating and capital expenditure requirements. Unused available credit from Royale Energy's bank totaled approximately \$5,525,000 at December 31, 2001.

Operating Activities. For the year ended December 31, 2001, cash provided by operating activities totaled \$7,705,142 or \$1.85 per basic share compared to \$3,415,118 or \$0.82 per basic share provided by operations for 2000 which represents a \$4,290,024 or 125.6% increase. This increase in cash provided in 2001 can be mainly attributed to increased oil and gas sales during the year in 2001.

Investing Activities. Net cash used by investing activities, primarily in capital acquisitions of oil and gas properties, amounted to \$3,728,035 for the period in 2001, compared to \$2,234,845 used by investing activities for 2000. The increase in cash used by investing activities can be primarily attributable to the drilling of eleven wells during the year in 2001 versus the drilling of nine wells during the year in 2000.

Financing Activities. Net cash used by financing activities for the year ended December 31, 2001, was \$2,952,089, compared to cash used by financing activities during the year in 2000 of \$90,411. The increase in net cash used by financing activities was mainly due to the decrease in the use of Royale Energy's credit facility during the period in 2001 when compared to 2000.

Item 7. Financial Statements and Supplementary Data

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

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons, Compliance with Section 16(a) of the Exchange Act

Listed below is certain information about Royale Energy's current directors and executive officers. Directors are elected by shareholders at each annual shareholders' meeting and serve until their successors are elected and qualified. Officers serve at the discretion of the board of directors.

The following persons currently serve as the directors and executive officers of Royale Energy, its subsidiaries and affiliated companies.

Name	Age	First Became Director or Executive Officer	Positions Held
Harry E. Hosmer*	71	1986	Chairman of the Board
Donald H. Hosmer+	48	1987	President, Secretary and Director Chairman of the Board and President of Royale Petroleum Corporation ("RPC")
Stephen M. Hosmer+	35	1996	Chief Financial Officer and Director Secretary and Director of RPC
Oscar A. Hildebrandt*+	66	1995	Director
Rodney Nahama	70	1994	Director
Gilbert Kemp	68	1998	Director
George M. Watters*+	82	1991	Director

* Member of the audit committee.

+ Member of the compensation committee.

Following is a summary of the business experience of each director and executive officer for the past five years.

HARRY E. HOSMER is the Chairman of the Board of Royale Energy. He has served as Chairman since Royale Energy began in 1986, and from inception in 1986 until June 1995, he also served as President and Chief Executive Officer. In October 1985, Mr. Hosmer and his sons founded Royale Petroleum Corporation, an affiliate of Royale Energy.

DONALD H. HOSMER is President, Chief Executive Officer, Secretary, and Director of Royale Energy. He has served as an executive officer and Director of Royale Energy since its inception in 1987, and in June 1995 he became President and Chief Executive Officer. Prior to becoming President, he was Executive Vice President, responsible for marketing working interests in oil and gas projects developed by Royale Energy. He was also responsible for investor relations and communications. Donald H. Hosmer is the son of Harry E. Hosmer and brother of Stephen M. Hosmer.

STEPHEN M. HOSMER is Chief Financial Officer and Director of Royale Energy. Mr. Hosmer joined Royale Energy as the Management Information Systems Manager in May 1988, responsible for developing and maintaining Royale Energy's computer software. Mr. Hosmer developed programs and software systems used by Royale Energy. From 1991 to 1995, he served as president of Royale Operating Company, Royale Energy's operating subsidiary. In 1995, he became Chief Financial Officer fo Royale Energy. In 1996, he was elected to the board of directors of Royale Energy. Mr. Hosmer serves on the board of directors of Youth for Christ, a charitable organization in San Diego, California. Stephen M. Hosmer is the son of Harry E. Hosmer and brother of Donald H. Hosmer. He has a B.S. degree from Oral Roberts University in Business Administration.

OSCAR HILDEBRANDT, D.V.M., is a Director and is Chairman of Royale Energy's Compensation Committee. From 1994 to 1995 he served as an advisory member of Royale Energy's Board of Directors. Dr. Hildebrandt practiced veterinary medicine as President of Medford Veterinary Clinic, Medford, Wisconsin, from 1960 to 1990. Since 1990, Dr. Hildebrandt has engaged independently in veterinary practice consulting services. He has served on the board of directors of Fidelity National Bank - Medford, Wisconsin, and its predecessor bank from 1965 to the present and is past chairman of the board of the Bank. From 1990 to the present he has acted as a financial advisor engaged in private business interests. Dr. Hildebrandt received a Bachelor of Science degree from the University of Wisconsin in 1954 and a Doctor of Veterinary Medicine degree from the University of Minnesota in 1958.

GILBERT C. L. KEMP currently manages the California operations of Western Atlas, Inc., a New York Stock Exchange company. Mr. Kemp was a founding member of 3-D Geophysical, Inc., where he served as Vice President from 1996 until March 1998. In March 1998 3-D Geophysical, whose stock had been listed on the Nasdaq National Market System since February 1996, merged with Western Atlas, Inc. During the years 1987 to 1995, Mr. Kemp served as President and CEO of Kemp Geophysical Corporation, which owned and operated seismic crews in the United States and Canada.

RODNEY NAHAMA, a Director of Royale Energy, was employed as president and chief executive officer of Nahama & Weagant Energy Co. from 1971 until March 1994. Since March 1994, Mr. Nahama has pursued private business interests, including the provision of geologic consulting services to Royale Energy. Mr. Nahama holds a B.A. degree in geology from the University of California, Los Angeles, and an M.A. degree in geology from the University of Southern California. He was an independent exploration geologist from 1965 to 1971 and prior to that served as a geologist with Franco Western Oil Company from 1963 to 1965. Between 1957 and 1963, Mr. Nahama worked as an exploration geologist with Honolulu Oil Company, Getty Oil Company, and Sunray Oil Company. Mr. Nahama is a member of the American Association of Petroleum Geologists, the San Joaquin Geological Society, the California Independent Petroleum Association and the Independent Petroleum Association of America.

GEORGE M. WATTERS has been retired from full time employment during the last five years. Mr. Watters retired from AMOCO Corporation in 1983 after serving for 24 years in senior management positions with AMOCO Corporation and its affiliates. From 1987 to the present Mr. Watters has managed his personal investments. Mr. Watters received his B.S. degree from Massachusetts Institute of Technology in 1942.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 and Securities and Exchange Commission regulations require that Royale Energy's directors, certain officers, and greater than 10 percent shareholders file reports of ownership and changes in ownership with the SEC and the NASD and furnish Royale Energy with copies of all such reports they file. One director, Harry E. Hosmer, filed a late report on Form 5 of his reacquisition of 392,500 shares of Royale Energy's common stock from two charitable trusts in May 2000.

Based solely upon a review of the copies of the forms furnished to Royale Energy, or representations from certain reporting persons that no reports were required, Royale Energy believes that no other persons failed to file required reports on a timely basis during or in respect of 2001.

Item 10. Executive Compensation

The following table summarizes the compensation of the chief executive officer and the other most highly compensated executive officers of Royale Energy and its subsidiaries during the past year.

(a) Name	(b) Year	<u>Annual Compensation</u>			<u>Long Term Compensation</u>
		(c) <u>Salary</u>	(d) <u>Bonus</u>	(e) Other Annual Compensation (1)	(i) All Other Compensation (2)
Donald Hosmer President	2001	\$143,289	\$50,000	\$ 2,541	\$ 4,000
	2000	\$135,046	\$10,000	\$ 653	\$ 2,400
	1999	\$135,046		\$ 415	\$ 2,400
Stephen Hosmer CFO	2001	\$119,656	\$50,000	\$ 1,757	\$ 3,500
	2000	\$112,539	\$10,000	\$ 630	\$ 3,300
	1999	\$112,539		\$ 321	\$ 3,300

(1) Under the terms of a plan adopted by the board of directors in 1989, each of the listed executives has elected to participate in wells drilled by Royale Energy. See, Certain Relationships and Related Transactions on page 19. The costs that they incurred for interests acquired in wells pursuant to this policy are less than would have been the cost of purchasing an equivalent percentage as working interests in these wells which are sold to unaffiliated outside investors. The difference between the executives' actual cost and the cost incurred by outside investors could be considered as additional compensation to them. However, Royale Energy's management does not believe that the amount of such difference is significant. In addition, prior to June 1995, Royale Energy advanced funds to the executives to pay for their well participation interests. To the extent that the advances amount to interest free loans, the executives could also be considered to have received additional compensation. The Other Annual Compensation in the foregoing table consists of the amounts which the management believes may be considered income to be imputed from such foregone interest. The imputed interest was estimated using approximate amounts due at the end of each period, as if that amount had been due for the entire period. Royale Energy used the imputed interest rate of 7% simple interest per annum. In June 1995, Royale Energy's policy regarding advancement of funds was changed. The current policy requires that all such purchases of interests in wells must be paid in cash.

(2) Includes Royale Energy's matching contribution in 2001 for Donald Hosmer (\$4,000) and Stephen Hosmer (\$3,500) to Royale Energy's retirement savings plan initiated in April 1998. For year ending 2000, includes matching contribution for Donald Hosmer (\$2,400) and Stephen Hosmer (\$3,300) and for the year ending 1999, includes matching contribution for Donald Hosmer (\$2,400) and Stephen Hosmer (\$3,300).

Royale Energy does not have employment agreements with any of its executives.

No Stock Options Were Granted in 2001

Royale Energy did not grant any stock options or stock appreciation rights or Long-Term Incentive Plan Awards to its officers or employees during 2001.

Aggregated 2001 Option Exercises and Year-End Values

None of the executive officers named in the Summary Compensation Table exercised any stock options or stock appreciation rights in 2001, 2000, or 1999. The following table summarizes the number and value of all unexercised stock options held by those executive officers at the end of 2001.

(a) <u>Name</u>	(b) <u>Shares Acquired on Exercise</u>	(c) <u>Value Realized</u>	(d) Number of Securities Underlying Unexercised Options/SARs at FY-End		(e) Value of Unexercised In-the- Money Options/SARs at FY- End (1)	
			<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
Donald Hosmer, President	0	\$0	17,500	0	\$111,475	\$0
Stephen Hosmer, CFO	0	\$0	11,250	0	\$ 71,663	\$0

(1) Based on a fair market value of \$6.37 per share, which was the closing bid price of Royale Energy's Common Stock in the Nasdaq National Market System on Friday, December 29, 2001.

Compensation of Directors

Each director who is not an employee of Royale Energy receives a quarterly fee for his services, which in 2001 was set at \$2,500. In addition, Royale Energy reimburses directors for the expenses they incur for their service. No directors received any stock options or stock appreciation rights in 2001.