

BARNWELL INDUSTRIES INC

Form 10-K

December 20, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 2016

or

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

Commission File Number 1-5103

BARNWELL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

72-0496921

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

1100 Alakea Street, Suite 2900, Honolulu, Hawaii 96813-2833

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (808) 531-8400

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

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
|---------------------|---|

|  |          |
|--|----------|
| Common Stock, par value \$0.50 per share | NYSE MKT |
|--|----------|

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

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The aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of a share of common stock on March 31, 2016 (the last business day of the registrant's most recently completed second fiscal quarter) was \$7,026,000.

As of December 1, 2016 there were 8,277,160 shares of common stock outstanding.

Documents Incorporated by Reference

1. Proxy statement to be forwarded to stockholders on or about January 19, 2017 is incorporated by reference in Part III hereof.
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## GLOSSARY OF TERMS

Defined below are certain terms used in this Form 10-K:

| Terms                                      | Definitions   |
|--|---|
| ASC  | -Accounting Standards Codification  |
| ASU  | -Accounting Standards Update  |
| Barnwell                                   | -Barnwell Industries, Inc. and all majority-owned subsidiaries  |
| Barnwell of Canada                         | -Barnwell of Canada, Limited  |
| Bbl(s)                                     | -stock tank barrel(s) of oil equivalent to 42 U.S. gallons  |
| Boe  | -barrel of oil equivalent at the rate of 5.8 Mcf per Bbl of oil or NGL  |
| Dunvegan                                   | -Natural gas and oil properties in the Dunvegan and Belloy areas of Alberta, Canada   |
| FASB                                       | -Financial Accounting Standards Board   |
| GAAP                                       | -U.S. generally accepted accounting principles  |
| Gross                                      | Total number of acres or wells in which Barnwell owns an interest; includes interests owned of record by Barnwell and, in addition, the portion(s) owned by others; for example, a 50% interest in a 320 acre lease represents 320 gross acres and a 50% interest in a well represents 1 gross well. In the context of production volumes, gross represents amounts before deduction of the royalty share due others. |
| InSite                                     | -InSite Petroleum Consultants Ltd.  |
| Kaupulehu 2007                             | -Kaupulehu 2007, LLLP   |
| KD I                                       | -KD Acquisition, LLLP, formerly known as WB KD Acquisition, LLC (“WB”)  |
| KD II                                      | -KD Acquisition II, LLLP, formerly known as WB KD Acquisition II, LLC (“WBKD”)  |
| KD Kona                                    | -KD Kona 2013 LLLP  |
| KKM Makai                                  | -KKM Makai, LLLP  |
| Kukio Resort land development partnerships | The following partnerships in which Barnwell owns a 19.6% non-controlling interest:<br>- KD Kukio Resorts, LLLP<br>- KD Maniniowali, LLLP<br>- KD Kaupulehu, LLLP, which consists of KD I and KD II   |
| LIBOR                                      | -London Interbank Offer Rate  |
| MBbls                                      | -thousands of barrels of oil  |
| Mcf  | 1,000 cubic feet of natural gas at 14.65 pounds per square inch absolute and 60 degrees Fahrenheit  |
| Mcfe                                       | -Mcf equivalent at the rate of 1 Bbl = 5.8 Mcf  |
| MMcf                                       | -millions of cubic feet of natural gas  |
| Net  | Barnwell’s aggregate interest in the total acres or wells; for example, a 50% interest in a 320 acre lease represents 160 net acres and a 50% interest in a well represents 0.5 net well. In the context of production volumes, net represents amounts after deduction of the royalty share due others.   |
| NGL(s)                                     | -natural gas liquid(s)  |
| SEC  | -United States Securities and Exchange Commission   |
| VIE  | -Variable interest entity   |
| Water Resources                            | -Water Resources International, Inc.  |

PART I

CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION  
FOR THE PURPOSE OF “SAFE HARBOR” PROVISIONS OF THE  
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Form 10-K, and the documents incorporated herein by reference, contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (“PSLRA”). A forward-looking statement is one which is based on current expectations of future events or conditions and does not relate to historical or current facts. These statements include various estimates, forecasts, projections of Barnwell Industries, Inc.’s (referred to herein together with its majority-owned subsidiaries as “Barnwell,” “we,” “our,” “us” or the “Company”) future performance, statements of Barnwell’s plans and objectives and other similar statements. All such statements we make are forward-looking statements made under the safe harbor of the PSLRA, except to the extent such statements relate to the operations of a partnership or limited liability company. Forward-looking statements include phrases such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “predicts,” “estimates,” “assumes,” “projects,” “may,” “will,” “will be,” and similar expressions. Although Barnwell believes that its current expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such forward-looking statements will be achieved. Forward-looking statements involve risks, uncertainties and assumptions which could cause actual results to differ materially from those contained in such statements. Investors should not place undue reliance on these forward-looking statements, as they speak only as of the date of filing of this Form 10-K, and Barnwell expressly disclaims any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein.

Among the important factors that could cause actual results to differ materially from those in the forward-looking statements are domestic and international general economic conditions, such as recessionary trends and inflation; domestic and international political, legislative, economic, regulatory and legal actions, including changes in the policies of the Organization of Petroleum Exporting Countries or other developments involving or affecting oil and natural gas producing countries; military conflict, embargoes, internal instability or actions or reactions of the governments of the United States and/or Canada in anticipation of or in response to such developments; interest costs, restrictions on production, restrictions on imports and exports in both the United States and Canada, the maintenance of specified reserves, tax increases and retroactive tax claims, royalty increases, expropriation of property, cancellation of contract rights, environmental protection controls, environmental compliance requirements and laws pertaining to workers’ health and safety; the condition of Hawaii’s real estate market, including the level of real estate activity and prices, the demand for new housing and second homes on the island of Hawaii, the rate of increase in the cost of building materials and labor, the introduction of building code modifications, changes to zoning laws, the condition of Hawaii’s tourism industry and the level of confidence in Hawaii’s economy; levels of land development activity in Hawaii; levels of demand for water well drilling and pump installation in Hawaii; the potential liability resulting from pending or future litigation; the Company’s acquisition or disposition of assets; the effects of changed accounting rules under GAAP promulgated by rule-setting bodies; and the factors set forth under the heading “Risk Factors” in this Form 10-K, in other portions of this Form 10-K, in the Notes to Consolidated Financial Statements, and in other documents filed by Barnwell with the SEC. In addition, unpredictable or unknown factors not discussed in this report could also cause actual results to materially and adversely differ from those discussed in the forward-looking statements.

Unless otherwise indicated, all references to “dollars” in this Form 10-K are to United States dollars.

ITEM 1. BUSINESS

Overview

Barnwell was incorporated in Delaware in 1956 and fiscal 2016 represented Barnwell's 60th year of operations. Barnwell operates in the following four principal business segments:

**Oil and Natural Gas Segment** - Barnwell engages in oil and natural gas development, production, acquisitions and sales in Canada.

**Land Investment Segment** - Barnwell invests in land interests in Hawaii.

**Contract Drilling Segment** - Barnwell provides well drilling services and water pumping system installation and repairs in Hawaii.

**Residential Real Estate Segment** - Barnwell develops homes for sale in Hawaii.

Oil and Natural Gas Segment

Overview

Through our wholly-owned subsidiary, Barnwell of Canada, we are involved in the acquisition and development of oil and natural gas properties. Barnwell of Canada initiates and participates in acquisition and developmental operations for oil and natural gas on properties in which it has an interest and evaluates proposals by third parties with regard to participation in exploratory and developmental operations elsewhere.

Operations

Barnwell's investments in oil and natural gas properties are located in Canada, principally in the province of Alberta, with minor, non-producing holdings in the provinces of Saskatchewan and British Columbia. These property interests are principally held under governmental leases or licenses. Under the typical Canadian provincial governmental lease, Barnwell must perform exploratory operations, establish production and comply with certain other conditions. Lease terms vary with each province, but, in general, the terms grant Barnwell the right to remove oil, natural gas and related substances subject to payment of royalties on production that vary based on production rates and commodity prices.

All acquisition and developmental activities, as well as all field operations and regulatory compliance, are the direct responsibility of Barnwell of Canada's President and Chief Operating Officer, with strategic direction and approvals for major expenditures secured from Barnwell's senior executive management. In fiscal 2016, Barnwell participated in acquisition and developmental operations in Alberta, although Barnwell does not limit its consideration of acquisition and developmental operations to this area.

Natural gas prices are typically higher in the winter than at other times due to increased heating demand. Oil prices are also subject to seasonal fluctuations, but to a lesser degree. Oil and natural gas unit sales are based on the quantity produced from the properties by the properties' operator.

Our oil and natural gas segment revenues, profitability, and future rate of growth are dependent on oil and natural gas prices. The industry has experienced a prolonged period of low oil and natural gas prices that has negatively impacted our operating results, cash flows and liquidity. Credit and capital markets for



oil and natural gas companies have been negatively affected as well, resulting in a decline in sources of financing as compared to previous years.

In September 2015, Barnwell sold its interests in its principal oil and natural gas properties located in the Dunvegan and Belloy areas of Alberta, Canada. Barnwell's net proceeds from the sale, after broker's fees and other closing costs, were \$14,162,000. The disposition was recorded in fiscal 2015 using preliminary purchase price adjustments. Barnwell and the purchaser updated and finalized the purchase price adjustments in accordance with the terms of the purchase and sale agreement during fiscal 2016 which resulted in additional proceeds of \$493,000 and the recognition of an additional gain in the amount of \$472,000 during the year ended September 30, 2016, bringing the total gain on the sale of these properties to \$6,689,000.

The sale of Dunvegan resulted in a 60% decrease in our proved natural gas reserves and a 34% decrease in our proved oil and natural gas liquids reserves. In fiscal 2015, Dunvegan accounted for 74% of our net natural gas production and 44% of our net oil and natural gas liquids production, and contributed 46% of our total oil and natural gas revenues.

As a result of the disposition, Barnwell's revolving credit facility at Royal Bank of Canada was amended in September 2015 to decrease the amount of the borrowing capacity from \$6,500,000 Canadian dollars to \$1,000,000 Canadian dollars. Barnwell repaid the \$4,800,000 then outstanding on the credit facility in full from a portion of the proceeds of the Dunvegan disposition. In April 2016, the revolving credit facility was terminated. In June 2016, Barnwell entered into a new agreement with Royal Bank of Canada for a revolving demand facility in the amount of \$500,000 Canadian dollars, or U.S. \$381,000 at the September 30, 2016 exchange rate, which is secured by a \$500,000 Canadian dollar, or U.S. \$381,000, guaranteed investment certificate pledged to the Royal Bank of Canada.

We intend to continue to evaluate opportunities to acquire additional acreage and producing assets and to access new drilling and recompletion opportunities in order to deploy some or all of the cash proceeds from the sale of Dunvegan and other cash on hand. However, to date, we have not made any such significant investments in new oil and natural gas properties since the sale of Dunvegan. Without a significant reinvestment in our oil and natural gas business, it is likely that our future cash flow from operations from this segment will continue to decline and may become negative. If we do not redeploy this cash in new investments in our oil and natural gas business, or in our other businesses, or in new businesses, the funds from the sale of Dunvegan, including potentially the entire remaining balance, and other cash on hand are likely to be used to fund existing ongoing operations, general and administrative expenses, asset retirement obligations and retirement plan funding.

#### Preparation of Reserve Estimates

Barnwell's reserves are estimated by our independent petroleum reserve engineers, InSite, in accordance with generally accepted petroleum engineering and evaluation principles and techniques and rules and regulations of the SEC. All information with respect to the Company's reserves in this Form 10-K is derived from the report of InSite. A copy of the report issued by InSite is filed with this Form 10-K as Exhibit 99.1. InSite, and its predecessor company Paddock Lindstrom Associates Ltd., has been the Company's independent petroleum reserve engineering firm for over 20 years.

The preparation of data used by the independent petroleum reserve engineers to compile our oil and natural gas reserve estimates is completed in accordance with various internal control procedures which include verification of data input into reserves evaluation software, reconciliations and reviews of data



provided to the independent petroleum reserve engineers to ensure completeness, and management review controls, including an independent internal review of the final reserve report for completeness and accuracy.

Barnwell has a Reserves Committee consisting of four independent directors, the Company's President and Chief Operating Officer, and the Company's Executive Vice President and Chief Financial Officer. The Reserves Committee was established to ensure the independence of the Company's petroleum reserve engineers. The Reserves Committee is responsible for reviewing the annual reserve evaluation report prepared by the independent petroleum reserve engineering firm and ensuring that the reserves are reported fairly in a manner consistent with applicable standards. The Reserves Committee meets annually to discuss reserve issues and policies and to meet with Company personnel and the independent petroleum reserve engineers.

Barnwell of Canada's President and Chief Operating Officer has primary responsibility for overseeing the preparation of the Company's reserve estimates by our independent petroleum reserve engineers. He is a professional engineer with over 30 years of relevant experience in all facets of the oil and natural gas industry in Canada and is a member of the Association of Professional Engineers and Geoscientists of Alberta.

#### Reserves

The amounts set forth in the following table, based on InSite's evaluation of our reserves, summarize our estimated proved reserves of oil (including natural gas liquids) and natural gas as of September 30, 2016 on all properties in which Barnwell has an interest. All of Barnwell's proved reserves are developed; Barnwell has no proved undeveloped reserves as of September 30, 2016. All of our oil and natural gas reserves are located in Canada and are based on constant dollars. No estimates of total proved net oil or natural gas reserves have been filed with, or included in reports to, any federal authority or agency, other than the SEC, since October 1, 2015.

|   | September 30,<br>2016 |
|---|-----------------------|
| Oil, including natural gas liquids (Bbls) | 450,000               |
| Natural gas (Mcf)                         | 1,441,000             |
| Total (Boe)                               | 698,000               |

During fiscal 2016, Barnwell's total net proved developed reserves of oil and natural gas liquids decreased by 19,000 Bbls (4%) and total net proved developed reserves of natural gas decreased by 1,683,000 Mcf (54%), for a combined decrease of 310,000 Boe (31%). The decreases were primarily the result of downward revisions in volumes resulting from lower rolling average historical first-day-of-the-month oil and natural gas prices used in the determination of reserve volumes at September 30, 2016 as well as production during the year, partially offset by acquisitions of reserves and extensions, discoveries and other additions.

The following table sets forth Barnwell's oil and natural gas net reserves at September 30, 2016, by property name, based on information prepared by InSite, as well as net production and net revenues by property name for the year ended September 30, 2016. This table is based on constant dollars where reserve estimates are based on sales prices, costs and statutory tax rates in existence at September 30, 2016, the date of the projection.

| Property Name    | As of September 30, 2016 |            | For the year ended September 30, 2016 |            |                  |           |              |           |
|------------------|--------------------------|------------|---------------------------------------|------------|------------------|-----------|--------------|-----------|
|                  | Net Proved               |            | Total Net                             |            | Net Production   |           | Net Revenues |           |
|                  | Producing Reserves       |            | Proved Reserves                       |            |                  |           |              |           |
|                  | Oil & NGL(MMcf)          | Gas (MMcf) | Oil & NGL(MBbls)                      | Gas (MMcf) | Oil & NGL (Bbls) | Gas (Mcf) | Oil & NGL    | Gas       |
| Progress         | 42                       | 156        | 115                                   | 717        | 12,000           | 88,000    | \$423,000    | \$94,000  |
| Bonanza/Balsam   | 61                       | 58         | 61                                    | 58         | 12,000           | 26,000    | 398,000      | 37,000    |
| Wood River       | 64                       | 20         | 64                                    | 20         | 11,000           | 12,000    | 351,000      | 20,000    |
| Red Earth        | 126                      | 2          | 126                                   | 2          | 27,000           | —         | 693,000      | —         |
| Other properties | 53                       | 584        | 84                                    | 644        | 22,000           | 350,000   | 624,000      | 537,000   |
| Total            | 346                      | 820        | 450                                   | 1,441      | 84,000           | 476,000   | \$2,489,000  | \$688,000 |

#### Standardized Measure of Discounted Future Net Cash Flows

The following table sets forth Barnwell's "Estimated Future Net Revenues" from total proved oil, natural gas and natural gas liquids reserves and the present value of Barnwell's "Estimated Future Net Revenues" (discounted at 10%) as of September 30, 2016. Estimated future net revenues for total proved reserves are net of estimated future expenditures of developing and producing the proved reserves, and assume the continuation of existing economic conditions. Net revenues have been calculated using the average first-day-of-the-month price during the 12-month period ending as of the balance sheet date and current costs, after deducting all royalties, operating costs, future estimated capital expenditures (including abandonment costs), and income taxes.

| Year ending September 30,                              |             |
|--|-------------|
| 2017   | \$805,000   |
| 2018   | 985,000     |
| 2019   | 759,000     |
| Thereafter   | 1,317,000   |
| Undiscounted future net cash flows, after income taxes | \$3,866,000 |

Standardized measure of discounted future net cash flows \$2,910,000 \*

\* This amount does not purport to represent, nor should it be interpreted as, the fair value of Barnwell's natural gas and oil reserves. An estimate of fair value would also consider, among other items, the value of Barnwell's undeveloped land position, the recovery of reserves not presently classified as proved, anticipated future changes in oil and natural gas prices (these amounts were based on a natural gas price of \$1.35 per Mcf and an oil price of \$34.19 per Bbl) and costs, and a discount factor more representative of the time value of money and the risks inherent in reserve estimates.

#### Oil and Natural Gas Production

The following table summarizes (a) Barnwell's net production for the last three fiscal years, based on sales of natural gas, oil and natural gas liquids, from all wells in which Barnwell has or had an interest, and (b) the average sales prices and average production costs for such production during the same periods. Production amounts reported are net of royalties. All of Barnwell's net production in fiscal 2016, 2015 and 2014 was derived in Canada, primarily in Alberta. For a discussion regarding our total annual production



volumes, average sales prices, and related production costs, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

|   | Year ended September 30, |           |           |
|---|--------------------------|-----------|-----------|
|   | 2016                     | 2015      | 2014      |
| Annual net production:                              |                          |           |           |
| Natural gas liquids (Bbls)                          | 6,000                    | 65,000    | 69,000    |
| Oil (Bbls)  | 78,000                   | 78,000    | 115,000   |
| Natural gas (Mcf)                                   | 476,000                  | 1,688,000 | 1,927,000 |
| Total (Boe)   | 166,000                  | 434,000   | 516,000   |
| Total (Mcf)   | 965,000                  | 2,513,000 | 2,996,000 |
| Annual average sales price per unit of production:  |                          |           |           |
| Bbl of natural gas liquids*                         | \$23.82                  | \$18.16   | \$46.04   |
| Bbl of oil*   | \$32.42                  | \$46.44   | \$80.40   |
| Mcf of natural gas**                                | \$1.27                   | \$2.23    | \$3.84    |
| Annual average production cost per Boe produced***  | \$18.58                  | \$13.81   | \$16.32   |
| Annual average production cost per Mcfe produced*** | \$3.20                   | \$2.38    | \$2.81    |

\* Calculated on revenues before royalty expense divided by gross production.

\*\* Calculated on revenues net of pipeline charges before royalty expense divided by gross production.

\*\*\* Calculated on production costs, excluding natural gas pipeline charges, divided by the combined total production of natural gas liquids, oil and natural gas.

#### Capital Expenditures

Barnwell invested \$1,773,000 in oil and natural gas properties during fiscal 2016, including accrued capital expenditures and acquisitions of oil and natural gas properties and excluding additions and revisions to estimated asset retirement obligations, of which \$769,000 (43%) was for the acquisition of additional working interests in oil and natural gas properties and \$1,004,000 (57%) was for well improvements.

## Well Drilling Activities

The following table sets forth more detailed information with respect to the number of exploratory (“Exp.”) and development (“Dev.”) wells drilled for the fiscal years ended September 30, 2016, 2015 and 2014 in which Barnwell participated. There were no wells drilled in the fiscal years ended September 30, 2016 and 2015. All wells shown were drilled in Canada.

|       | Productive Oil Wells |      | Productive Gas Wells |      | Total Productive Wells |      | Dry Holes |      | Total Wells |      |
|-------|----------------------|------|----------------------|------|------------------------|------|-----------|------|-------------|------|
|       | Exp.                 | Dev. | Exp.                 | Dev. | Exp.                   | Dev. | Exp.      | Dev. | Exp.        | Dev. |
| 2016  |                      |      |                      |      |                        |      |           |      |             |      |
| Gross | —                    | —    | —                    | —    | —                      | —    | —         | —    | —           | —    |
| Net   | —                    | —    | —                    | —    | —                      | —    | —         | —    | —           | —    |
| 2015  |                      |      |                      |      |                        |      |           |      |             |      |
| Gross | —                    | —    | —                    | —    | —                      | —    | —         | —    | —           | —    |
| Net   | —                    | —    | —                    | —    | —                      | —    | —         | —    | —           | —    |
| 2014  |                      |      |                      |      |                        |      |           |      |             |      |
| Gross | —                    | 2.0  | —                    | 2.0  | —                      | 4.0  | —         | —    | —           | 4.0  |
| Net   | —                    | 1.2  | —                    | 0.4  | —                      | 1.6  | —         | —    | —           | 1.6  |

At September 30, 2016, Barnwell was not in the process of drilling any oil or natural gas wells.

## Productive Wells

As of September 30, 2016, Barnwell had interests in 156 gross (31.3 net) productive wells, of which 86 gross (17.0 net) were oil wells and 70 gross (14.3 net) were natural gas wells. Four natural gas wells and two oil wells have dual or multiple completions. All wells were in Canada.

## Developed Acreage and Undeveloped Acreage

The following table sets forth the gross and net acres of both developed and undeveloped oil and natural gas leases which we held as of September 30, 2016.

| Location | Developed Acreage* |        | Undeveloped Acreage* |        | Total   |        |
|----------|--------------------|--------|----------------------|--------|---------|--------|
|          | Gross              | Net    | Gross                | Net    | Gross   | Net    |
| Canada   | 187,991            | 36,450 | 96,860               | 19,233 | 284,851 | 55,683 |

\* “Developed Acreage” includes the acres covered by leases upon which there are one or more producing wells. “Undeveloped Acreage” includes acres covered by leases upon which there are no producing wells and which are maintained by the payment of delay rentals or the commencement of drilling thereon.

Sixty-six percent of Barnwell’s undeveloped acreage is not subject to expiration at September 30, 2016. Thirty-four percent of Barnwell’s leasehold interests in undeveloped acreage is subject to expiration and expire over the next five fiscal years, if not developed, as follows: 22% expire during fiscal 2017; 6% expire during fiscal 2018; 0% expire during fiscal 2019; 3% expire during fiscal 2020; and 3% expire in fiscal 2021. There can be no assurance that Barnwell will be successful in renewing its leasehold interests in the event of expiration.

Much of the undeveloped acreage is at non-operated properties over which we do not have control, and the value of such acreage is not estimated to be significant at current commodity prices. Barnwell’s



undeveloped acreage includes a significant concentration in the Thornbury (5,919 net acres) area of Alberta, Canada.

#### Marketing of Oil and Natural Gas

Barnwell sells all of its oil and natural gas liquids production under short-term contracts between itself and marketers of oil. The price of oil and natural gas liquids is freely negotiated between buyers and sellers and is largely determined by the world price for oil, which is principally denominated in U.S. dollars.

Natural gas sold by Barnwell is generally sold under short-term contracts with prices indexed to market prices. The price of natural gas is freely negotiated between buyers and sellers and is principally determined for Barnwell by western Canadian/Midwestern U.S. prices for natural gas. In fiscal 2016 and 2015, Barnwell took virtually all of its oil, natural gas liquids and natural gas “in kind” where Barnwell markets the products instead of having the operator of a producing property market the products on Barnwell’s behalf.

We sell oil, natural gas and natural gas liquids to a variety of energy marketing companies. Because our products are commodities for which there are numerous marketers, we are not dependent upon one purchaser or a small group of purchasers. Accordingly, the loss of any single purchaser would not materially affect our revenue.

In fiscal 2016, over 85% of Barnwell’s oil and natural gas revenues were from products sold at spot prices.

#### Governmental Regulation

The jurisdictions in which the oil and natural gas properties of Barnwell are located have regulatory provisions relating to permits for the drilling of wells, the spacing of wells, the prevention of oil and natural gas waste, allowable rates of production and other matters. The amount of oil and natural gas produced is subject to control by regulatory agencies in each province that periodically assign allowable rates of production. The province of Alberta and Government of Canada also monitor and regulate the volume of natural gas that may be removed from the province and the conditions of removal.

There is no current government regulation of the price that may be charged on the sale of Canadian oil or natural gas production. Canadian natural gas production destined for export is priced by market forces subject to export contracts meeting certain criteria prescribed by Canada’s National Energy Board and the Government of Canada.

Different royalty rates are imposed by government agencies and private interests with respect to the production and sale of oil, natural gas and natural gas liquids. In addition, provincial governments receive additional revenue through the imposition of taxes on oil and natural gas owned by private interests within the province. Essentially, provincial royalties are calculated as a percentage of revenue and vary depending on production volumes, selling prices and the date of discovery.

All of Barnwell’s gross revenues were derived from properties located within Alberta. The province of Alberta charges oil and natural gas producers a royalty for production in Alberta. The province of Alberta determines its royalty share of natural gas and oil by using reference prices that average all natural gas sales and oil sales, respectively, in Alberta. Barnwell also pays gross overriding royalties and leasehold royalties on a portion of its natural gas and oil sales to parties other than the province of Alberta.

Under the current Alberta Royalty Framework (“ARF”), royalty rates operate on a sliding rate formula sensitive to the price and production volumes of conventional oil and natural gas. The maximum royalty rate for conventional oil is 40% and the maximum royalty rate for natural gas is 36%. The price-sensitive maximum is reached for oil when oil is selling at or above \$120.00 Canadian dollars per barrel and for natural gas when natural gas is selling at or above \$17.50 Canadian dollars per Mcf. In January 2016, the Alberta Royalty Panel recommended a new modernized Alberta royalty framework (“New Framework”) which will apply to wells drilled on or after January 1, 2017. The current ARF will continue to apply to wells drilled prior to January 1, 2017 for a period of ten years, starting January 1, 2017, after which they will fall under the New Framework. Under the New Framework the same royalty calculation applies to both oil and natural gas wells, whereas the current ARF has different royalties applicable to each category, and royalties will be determined on a revenue minus cost basis where producers will pay a flat royalty rate of 5% of gross revenues until a well reaches payout after which an increased post-payout royalty will apply. Post payout royalties vary with commodity prices and are adjusted down for cost increases as wells age.

In fiscal 2016 and 2015, 54% and 73%, respectively, of royalties related to Alberta government charges, and 46% and 27%, respectively, of royalties related to freehold, override and other charges which are not directly affected by the ARF.

In fiscal 2016, the weighted-average royalty rate paid on all of Barnwell’s natural gas was 1%, and the weighted-average royalty rate paid on oil was 16%.

Barnwell's oil and natural gas segment is subject to the provisions of the Alberta Energy Regulator's (“AER”) Licensee Liability Rating (“LLR”) program. Under the LLR program the AER calculates a Liability Management Ratio (“LMR”) for a company based on the ratio of the company’s deemed assets over its deemed liabilities relating to wells and facilities for which the company is the licensed operator. The LMR assessment is designed to assess a company’s ability to address its suspension, abandonment, remediation, and reclamation liabilities. The value of the deemed assets is based on each well’s most recent twelve months of production and a rolling three-year average industry netback as determined by the AER annually. The AER has not recalculated the three-year average industry netback since March 2015 making the current value a premium to what most producers have been realizing. A recalculation of the value using current industry netback values would likely have a significant negative impact on our LMR. Companies with an LMR less than 1.0 are required to deposit funds with the AER to cover future deemed liabilities. At September 30, 2016, the Company had sufficient deemed asset value that no security deposit was due.

In June 2016, the AER implemented changes in the Liability Management Program (“LMP”) which now requires purchasers of AER licensed oil and natural gas assets to have an LMR of 2.0 or higher immediately following the transfer of a license, up from the previous requirement of 1.0 or higher. This change in the LMR requirement for well transfers will result in significantly less qualified buyers and may hinder our ability to generate capital by selling oil and natural gas assets. Additionally, it may inhibit our ability to grow through acquisitions without depositing collateral with the AER, as we do not currently have an LMR of 2.0 or higher.

Additionally, in July 2014, the AER introduced an Inactive Well Compliance Program which resulted in the acceleration of expenditures to suspend and/or abandon long-term inactive wells. Under the program all inactive wells that were non-compliant as of April 1, 2015 need to be brought into compliance by the operator within five years, in increments of not less than 20 percent per year. At April 1, 2015, Barnwell had 25 inactive wells identified as non-compliant by the AER. At September 30, 2016, 22 of these 25 wells had been brought into compliance through a combination of re-activation, abandonment, or suspension.



The estimated impact of the LLR program and Inactive Well Compliance Program has been incorporated into Barnwell's estimate of its asset retirement obligation liability.

## Competition

Barnwell competes in the sale of oil and natural gas on the basis of price and on the ability to deliver products. The oil and natural gas industry is intensely competitive in all phases, including the exploration for new production and reserves and the acquisition of equipment and labor necessary to conduct drilling activities. The competition comes from numerous major oil companies as well as numerous other independent operators. There is also competition between the oil and natural gas industry and other industries in supplying the energy and fuel requirements of industrial, commercial and individual consumers. Barnwell is a minor participant in the industry and competes in its oil and natural gas activities with many other companies having far greater financial, technical and other resources.

## Land Investment Segment

### Overview

Barnwell owns a 77.6% interest in Kaupulehu Developments, a Hawaii general partnership that has the right to receive percentage of sales payments from KD I and KD II resulting from the sale of lots and/or residential units by KD I and KD II within the approximately 870 acres of the Kaupulehu Lot 4A area in two increments ("Increment I" and "Increment II"), located approximately six miles north of the Kona International Airport in the North Kona District of the island of Hawaii. Kaupulehu Developments also holds an interest in approximately 1,000 acres of vacant leasehold land zoned conservation located adjacent to Lot 4A under a lease that terminates in December 2025, which currently has no development potential without both a development agreement with the lessor and zoning reclassification.

Barnwell, through two limited liability limited partnerships, KD Kona 2013 LLLP and KKM Makai, LLLP, holds a 19.6% non-controlling ownership interest in the Kukio Resort land development partnerships which is comprised of KD Kukio Resorts, LLLP, KD Maniniowali, LLLP and KD Kaupulehu, LLLP. These land development partnerships own certain real estate and development rights interests in the Kukio, Maniniowali and Kaupulehu portions of Kukio Resort, a private residential community on the Kona coast of the island of Hawaii, as well as Kukio Resort's real estate sales office operations. KD Kaupulehu, LLLP, which is comprised of KD I and KD II, is the developer of Kaupulehu Lot 4A Increments I and II, the area in which Barnwell has interests in percentage of sales payments. Barnwell's investment in these entities is accounted for using the equity method of accounting. The partnerships derive income from the sale of residential parcels, of which 25 lots remain to be sold within Kaupulehu Increment I and one ocean front parcel over two acres in size remains to be sold in Kaupulehu Increment II, as well as from commissions on real estate sales by the real estate sales office.

Kaupulehu 2007, a Hawaii limited liability limited partnership 80%-owned by Barnwell, owns one residential parcel in Kaupulehu Lot 4A Increment I that is available for sale.

### Operations

In the 1980s, Kaupulehu Developments obtained the state and county zoning changes necessary to permit development of the Four Seasons Resort Hualalai at Historic Ka`upulehu and Hualalai Golf Club,

which opened in 1996, a second golf course, and single-family and multi-family residential units. These projects were developed by an unaffiliated entity on leasehold land acquired from Kaupulehu Developments.

In the 1990s and 2000s, Kaupulehu Developments obtained the state and county zoning changes necessary to permit development of single-family and multi-family residential units, a golf course and a limited commercial area on approximately 870 leasehold acres, known as Lot 4A, zoned for resort/residential development, located adjacent to and north of the Four Seasons Resort Hualalai at Historic Ka'upulehu. In 2004 and 2006, Kaupulehu Developments sold its leasehold interest in Kaupulehu Lot 4A to KD I's and KD II's predecessors in interest, which was prior to Barnwell's affiliation with KD I and KD II which commenced on November 27, 2013, the acquisition date of our ownership interest in the Kukio Resort land development partnerships.

Increment I is an area planned for approximately 80 single-family lots, of which 25 lots remain to be sold, and a beach club on the portion of the property bordering the Pacific Ocean. The purchasers of the 80 single-family lots will have the right to apply for membership in the Kuki'o Golf and Beach Club, which is located adjacent to and south of the Four Seasons Resort Hualalai at Historic Ka'upulehu. Increment II is the remaining portion of the approximately 870-acre property and is zoned for single-family and multi-family residential units and a golf course and clubhouse. Two residential lots of significant value approximately two to three acres in size fronting the ocean were developed within Increment II by KD II, of which one lot was sold in fiscal 2016, and the remaining acreage within Increment II is not yet under development. It is uncertain when or if KD II will develop the other areas of Increment II, and there is no assurance with regards to the amounts of future sales from Increments I and II.

Kaupulehu Developments is entitled to receive payments from KD I based on the following percentages of the gross receipts from KD I's sales of single-family residential lots in Increment I: 9% of the gross proceeds from single-family lot sales up to aggregate gross proceeds of \$100,000,000; 10% of such aggregate gross proceeds greater than \$100,000,000 up to \$300,000,000; and 14% of such aggregate gross proceeds in excess of \$300,000,000. In fiscal 2016, three single-family lots in Increment I were sold bringing the total amount of gross proceeds from single-family lot sales through September 30, 2016 to \$205,000,000.

Kaupulehu Developments is entitled to receive payments from KD II based on a percentage of the sales price of KD II's sales of residential lots or units in Increment II ranging from 8% to 10% of the price of improved or unimproved lots or 2.60% to 3.25% of the price of units constructed on a lot, to be determined in the future depending upon a number of variables, including whether the lots are sold prior to improvement. Kaupulehu Developments is also entitled to receive up to \$8,000,000 in additional payments after the members of KD II have received distributions equal to the capital they invested in the project. One of the two ocean front lots developed by KD II was sold in fiscal 2016 for \$20,000,000, of which we received a percentage of sales payment in the amount of \$1,600,000 from KD II representing 8% of the gross sales price of the parcel.

In April 2016, the Kukio Resort land development partnerships made a cash distribution to its partners of which Barnwell received \$5,320,000, after distributing \$40,000 to minority interests.

## Competition

Barnwell's land investment segment is subject to intense competition in all phases of its operations including the acquisition of new properties, the securing of approvals necessary for land rezoning, and the search for potential buyers of property interests presently owned. The competition comes from numerous independent land development companies and other industries involved in land investment activities. The principal factors affecting competition are the location of the project and pricing. Barnwell is a minor participant in the land development industry and competes in its land investment activities with many other entities having far greater financial and other resources.

## Contract Drilling Segment

### Overview

Barnwell's wholly-owned subsidiary, Water Resources, drills water and water monitoring wells of varying depths in Hawaii, installs and repairs water pumping systems, and is the distributor for Floway pumps and equipment in the state of Hawaii.

### Operations

Water Resources owns and operates four water well drilling rigs, two pump rigs and other ancillary drilling and pump equipment. Additionally, Water Resources leases a three-quarter of an acre maintenance facility in Honolulu, Hawaii, a one acre maintenance and storage facility with 2,800 square feet of interior space in Kawaihae, Hawaii, and a one-half acre equipment storage yard in Waimea, Hawaii, and maintains an inventory of drilling materials and pump supplies.

Water Resources currently operates in Hawaii and is not subject to seasonal fluctuations. The demand for Water Resources' services is primarily dependent upon land development activities in Hawaii. Water Resources markets its services to land developers and government agencies, and identifies potential contracts through public notices, its officers' involvement in the community and referrals. Contracts are usually fixed price per lineal foot drilled or day rate contracts and are negotiated with private entities or obtained through competitive bidding with private entities or local, state and federal agencies. Contract revenues are not dependent upon the discovery of water or other similar targets, and contracts are not subject to renegotiation of profits or termination at the election of the governmental entities involved. Contracts provide for arbitration in the event of disputes.

In fiscal 2016, Water Resources started one well drilling and two pump installation and repair contracts and completed three well drilling and one pump installation and repair contracts. All three of the well drilling and the one pump installation and repair contracts completed were started in the prior year. Fifty percent of well drilling and pump installation and repair jobs, representing 36% of total contract drilling revenues in fiscal 2016, have been pursuant to government contracts.

At September 30, 2016, there was a backlog of two well drilling and five pump installation and repair contracts, of which one well drilling and four pump installation and repair contracts were in progress as of September 30, 2016.

The approximate dollar amount of Water Resources' backlog of firm well drilling and pump installation and repair contracts at December 1, 2016 and 2015 was as follows:

|                              | December 1, |             |
|------------------------------|-------------|-------------|
|                              | 2016        | 2015        |
| Well drilling                | \$2,900,000 | \$1,900,000 |
| Pump installation and repair | 900,000     | 800,000     |
|                              | \$3,800,000 | \$2,700,000 |

Of the contracts in backlog at December 1, 2016, \$3,400,000 is expected to be recognized in fiscal 2017 with the remainder to be recognized in the following fiscal year.

### Competition

Water Resources competes with other drilling contractors in Hawaii, some of which use drill rigs similar to Water Resources'. These competitors are also capable of installing and repairing vertical turbine and submersible water pumping systems in Hawaii. These contractors compete actively with Water Resources for government and private contracts. Pricing is Water Resources' major method of competition; reliability of service is also a significant factor.

Competitive pressures are expected to remain high, thus there is no assurance that the quantity or values of available or awarded jobs which occurred in fiscal 2016 will continue.

### Residential Real Estate Segment

#### Overview

Kaupulehu 2007 develops luxury residences for sale.

#### Operations

We began our homebuilding business in fiscal 2007 when Kaupulehu 2007 purchased two parcels in the Lot 4A Increment I area of Kaupulehu. Construction of the two homes commenced in fiscal 2007 and was completed in fiscal 2009. One of the homes was sold in fiscal 2012 and the other was sold in fiscal 2016, and the Company has no current homebuilding plans.

#### Competition

Barnwell's residential real estate segment is subject to intense competition in all phases of its operations including the acquisition of land, the building of residential homes, including the need for raw materials and skilled labor and the search for potential purchasers of completed homes. The competition comes from numerous independent real estate developers. The principal factors affecting competition are the location of the project, reputation, design, quality and pricing. Kaupulehu 2007 is a minor participant in the residential real estate industry and competes with many other entities having far greater financial and other resources.

## Financial Information About Industry Segments and Geographic Areas

Note 15 in the “Notes to Consolidated Financial Statements” in Item 8 contains information on our segments and geographic areas.

### Employees

At December 1, 2016, Barnwell employed 34 individuals; 33 on a full time basis and 1 on a part time basis.

### Environmental Costs

Barnwell is subject to extensive environmental laws and regulations. U.S. Federal and state and Canadian Federal and provincial governmental agencies issue rules and regulations and enforce laws to protect the environment which are often difficult and costly to comply with and which carry substantial penalties for failure to comply, particularly in regard to the discharge of materials into the environment. These laws, which are constantly changing, regulate the discharge of materials into the environment and maintenance of surface conditions and may require Barnwell to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites.

In January 2015, there was an oil and saltwater release from one of our operated oil pipelines in Alberta, Canada. The gross environmental remediation costs were approximately \$2,200,000. Barnwell’s working interest in the well is 58%, and we have recovered all of the monies from the other working interest owners for their share of the costs. We have collected insurance proceeds, less an \$80,000 deductible, for our share of the costs. There was no remaining liability at September 30, 2016.

In February 2016, a gas migration was detected at one of our previously abandoned non-operated wells in Alberta, Canada. We have estimated that probable environmental remediation costs will be within the range of \$400,000 to \$800,000. Barnwell’s working interest in the well is 50%, and accordingly we accrued approximately \$200,000 at September 30, 2016, however as non-operator we have no control over the actual cost or timing of the eventual remediation.

For further information on environmental remediation, see the Contingencies section included in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the notes to our consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data.”

### Available Information

We are required to file annual, quarterly and current reports and other information with the SEC. These filings are not deemed to be incorporated by reference in this report. You may read and copy any document filed by us at the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549, on official business days during the hours of 10 a.m. to 3 p.m. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings with the SEC are also available to the public through the SEC’s website at [www.sec.gov](http://www.sec.gov). Furthermore, we maintain an internet site at [www.brninc.com](http://www.brninc.com). We make available on our internet website free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as practicable after we electronically file such reports with, or furnish them to, the SEC. The contents of these websites are not incorporated into this filing. Furthermore, the Company’s references to URLs for these websites are intended to be textual references only.

ITEM 1A. RISK FACTORS

The business of Barnwell and its subsidiaries face numerous risks, including those set forth below or those described elsewhere in this Form 10-K or in Barnwell's other filings with the SEC. The risks described below are not the only risks that Barnwell faces. If any of the following risk factors should occur, our profitability, financial condition or liquidity could be materially negatively impacted.

Entity-Wide Risks

The Company faces issues that could impair our ability to continue as a going concern in the future.

Due to the negative impacts of 1) declines in oil and natural gas prices; 2) declines in oil and natural gas production due to both oil and natural gas property sales and the natural decline oil and natural gas wells experience as they age; 3) increasing costs due to both inflation and the age of Barnwell's properties and other factors, Barnwell's existing oil and natural gas assets are projected to have minimal cash flow from operations. As a result, the Company's current cash on hand will likely not be sufficient to fund both the significant reinvestments that are necessary to sustain our oil and natural gas business in the future and our asset retirement obligations, retirement plan funding, and ongoing operating and general and administrative expenses. Therefore, it is likely that Barnwell will be increasingly reliant upon future land investment segment proceeds from percentage of sales payments, if any, and future cash distributions, if any, from the Kukio Resort land development partnerships, the timing of which are both highly uncertain and not within Barnwell's control, to fund operations and provide capital for reinvestment. If the Company is unable to make sufficient and successful reinvestments, or if unforeseen circumstances arise that impair our ability to sustain or grow the Company, we may be forced to wind down our operations, either through liquidation, bankruptcy or further sales of our assets, and/or we may not be able to continue as a going concern in the longer term beyond one year.

Our revenues decreased significantly in the fiscal year ended September 30, 2016 as compared to the fiscal year ended September 30, 2015, and there can be no assurances that our revenues will not continue to decline.

Our consolidated revenues have been declining rapidly for years. In the fiscal year ended September 30, 2016, our consolidated revenues declined by 24% from fiscal 2015. Backing out the \$5,700,000 of revenues attributable to the one-time sale of a residential property in fiscal 2016, our consolidated revenues declined by 57% from fiscal 2015. The declines in revenues were significant across all of our business segments in fiscal 2016, other than the residential real estate segment which includes the sale of the home. We need to generate new revenues quickly and there can be no assurances that we will be successful in doing so. Our failure to increase our revenues and grow our profitability may force us to wind down our operations, either through liquidation, bankruptcy or further sales of our assets. We may not be able to continue as a going concern in the longer term beyond one year.

We incurred a loss before equity in income of affiliates and income taxes of \$6.2 million and a net loss attributable to Barnwell stockholders of \$3.6 million in the fiscal year ended September 30, 2016, and we may incur additional losses in fiscal 2017. We cannot give assurances of our future profitability.

We incurred these significant losses because our operating expenses, including our general and administrative expenses, substantially exceeded our revenues. While we have recently undertaken steps to reduce our overhead expenses, there can be no assurance that we will be able to achieve cost savings at levels that would return us to profitability, particularly in light of the pressure on our revenues.

A small number of stockholders, including our CEO and President, own a significant amount of our common stock and have influence over our business regardless of the opposition of other stockholders.

As of September 30, 2016, four of our stockholders, including our CEO and President, held approximately 44% of our outstanding common stock. The interests of one or more of these stockholders may not always coincide with the interests of other stockholders. These stockholders have significant influence over all matters submitted to our stockholders, including the election of our directors, and could accelerate, delay, deter or prevent a change of control of the Company. The significant stockholders who also are executive officers could significantly affect our business, policies and affairs.

Our operations are subject to currency rate fluctuations.

Our operations are subject to fluctuations in foreign currency exchange rates between the U.S. dollar and the Canadian dollar. Our financial statements, presented in U.S. dollars, may be affected by foreign currency fluctuations through both translation risk and transaction risk. Volatility in exchange rates may adversely affect our results of operations, particularly through the weakening of the U.S. dollar relative to the Canadian dollar which may affect the relative prices at which we sell our oil and natural gas and may affect the cost of certain items required in our operations. To date, we have not entered into foreign currency hedging transactions to control or minimize these risks.

Adverse changes in actuarial assumptions used to calculate retirement plan costs due to economic or other factors, or lower returns on plan assets could adversely affect Barnwell's results and financial condition.

Retirement plan cash funding obligations and plan expenses and obligations are subject to a high degree of uncertainty and could increase in future years depending on numerous factors, including the performance of the financial markets, specifically the equity markets, levels of interest rates, and the cost of health care insurance premiums.

The price of our common stock has been volatile and could continue to fluctuate substantially.

The market price of our common stock has been volatile and could fluctuate based on a variety of factors, including:

- fluctuations in commodity prices;
- variations in results of operations;
- announcements by us and our competitors;
- legislative or regulatory changes;
- general trends in the industry;
- general market conditions;
- litigation; and
- analysts' estimates and other events applicable to our industries.

Failure to retain key personnel could hurt our operations.

We require highly skilled and experienced personnel to operate our business. In addition to competing in highly competitive industries, we compete in a highly competitive labor market. Our business could be adversely affected by an inability to retain personnel or upward pressure on wages as a result of the highly competitive labor market. Further, there are significant personal liability risks to Barnwell of Canada's

individual officers and directors related to well clean-up costs that may affect our ability to attract or retain the necessary people.

We are a smaller reporting company and are taking advantage of certain reduced governance and disclosure requirements, including that our independent registered public accounting firm is not required to attest to the effectiveness of our internal control over financial reporting. We cannot be certain if the omission of reduced disclosure requirements applicable to smaller reporting companies will make our common stock less attractive to investors.

Currently, we are a “smaller reporting company,” meaning that our outstanding common stock held by nonaffiliates had a value of less than \$75 million at the end of our most recently completed second fiscal quarter. As a smaller reporting company, we are not required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, meaning our auditors are not required to attest to the effectiveness of the Company’s internal control over financial reporting. As a result, investors and others may be less comfortable with the effectiveness of the Company’s internal controls and the risk that material weaknesses or other deficiencies in internal controls go undetected may increase. In addition, as a smaller reporting company, we take advantage of our ability to provide certain other less comprehensive disclosures in our SEC filings, including, among other things, providing only two years of audited financial statements in annual reports and simplified executive compensation disclosures. Consequently, it may be more challenging for investors to analyze our results of operations and financial prospects, as the information we provide to stockholders may be different from what one might receive from other public companies in which one hold shares. As a smaller reporting company, we are not required to provide this information.

#### Risks Related to Oil and Natural Gas Segment

Acquisitions or discoveries of additional reserves are needed to increase our oil and natural gas segment operating results and cash flow.

In September 2015, we sold our interests in our principal oil and natural gas properties located in the Dunvegan and Belloy areas of Alberta, Canada. The sale of Dunvegan resulted in a 60% decrease in our proved natural gas reserves and a 34% decrease in our proved oil and natural gas liquids reserves. In fiscal 2015, Dunvegan accounted for 74% of our net natural gas production and 44% of our net oil and natural gas liquids production, and contributed 46% of our total oil and natural gas revenues. As a result of this sale, our oil and natural gas revenues and cash flow have significantly declined.

Reinvestment in oil and natural gas segment assets are needed to replace the significant amount of reserves sold in fiscal 2015 and reserves produced. Future oil and natural gas operating results and cash flow are, therefore, highly dependent upon our level of success in acquiring or finding additional reserves on an economic basis. We cannot guarantee that we will be successful in developing or acquiring additional reserves and our current financial resources may be insufficient to make such investments. Furthermore, if oil or natural gas prices increase, our cost for additional reserves could also increase.

We may have difficulty funding oil and natural gas segment capital expenditures which could have an adverse effect on our business.

Our oil and natural gas acquisition and development activities require substantial capital expenditures which we intend to fund using cash on hand and cash flows from operations. However, the Company's current cash on hand may be needed to fund upcoming cash needs including asset retirement obligations, retirement plan funding, and ongoing operating and general and administrative expenses, such that some or potentially





all of the cash will not be available for reinvestment. Future cash flows from operations are uncertain and are based on a number of variables including the level of production from existing wells, oil and natural gas prices, and our success in acquiring and developing new reserves. Barnwell's existing oil and natural gas assets are projected to have minimal cash flow from operations at current prices and production levels.

In April 2016, Barnwell's \$1,000,000 Canadian-dollar revolving credit facility at Royal Bank of Canada was terminated. The termination was due to Barnwell's significant reduction in reserves as a result of the sale of its interests in oil and natural gas properties located in the Dunvegan and Belloy areas in September 2015 as well as a tightening credit market for oil and natural gas companies due to current low oil and natural gas prices and reductions in Royal Bank of Canada's forecast of oil and natural gas prices which decreased its valuation of the Company's remaining oil and natural gas assets pledged as security. In June 2016, Barnwell entered into a new agreement with Royal Bank of Canada for a revolving demand facility in the amount of \$500,000 Canadian dollars, or U.S. \$381,000 at the September 30, 2016 exchange rate, which is secured by a \$500,000 Canadian dollar, or U.S. \$381,000, guaranteed investment certificate pledged to the Royal Bank of Canada. This leaves Barnwell with minimal available credit under the new revolving demand facility.

Disruptions in the capital and credit markets, in particular with respect to companies in the energy sector, could limit our ability to access these markets or may significantly increase our cost to borrow. Recent decreases in commodity prices, among other factors, are causing and may continue to cause lenders to increase interest rates, enact tighter lending standards which we may not satisfy, and reduce or cease to provide funding to borrowers. If additional capital is required, we may not be able to obtain financing on terms favorable to us, or at all. If cash on hand and cash generated by operations is not sufficient to meet our capital requirements, the failure to obtain additional financing could limit our ability to fund capital expenditures, and we may be forced to curtail our oil and natural gas activities or be forced to sell some of our oil and natural gas segment assets under untimely or unfavorable terms. Any such curtailment or sale could have a material adverse effect on our business, financial condition and results of operations.

We may not realize an adequate return on oil and natural gas investments.

Drilling for oil and natural gas involves numerous risks, including the risk that we will not encounter commercially productive oil or natural gas reservoirs. The wells we drill or participate in may not be productive, and we may not recover all or any portion of our investment in those wells. If future oil and natural gas segment acquisition and development activities are not successful it could have an adverse effect on our future results of operations and financial condition.

We may incur material costs to comply with or as a result of health, safety, and environmental laws and regulations.

The oil and natural gas industry is subject to extensive environmental regulation pursuant to local, provincial and federal legislation. A violation of that legislation may result in the imposition of fines or the issuance of "clean up" orders. Legislation regulating the oil and natural gas industry may be changed to impose higher standards and potentially more costly obligations. Although we have recorded a provision in our financial statements relating to our estimated future environmental and reclamation obligations that we believe is reasonable, we cannot guarantee that we will be able to satisfy our actual future environmental and reclamation obligations.

Barnwell's oil and natural gas segment is subject to the provisions of the Alberta Energy Regulator's ("AER") Licensee Liability Rating ("LLR") program. Under the LLR program the AER calculates a Liability

Management Ratio (“LMR”) for a company based on the ratio of the company’s deemed assets over its deemed liabilities relating to wells and facilities for which the company is the licensed operator and imposes a security deposit on operators whose estimated liabilities exceed their deemed asset value. At September 30, 2016, the Company had sufficient deemed asset value that no security deposit was due. However, decreases in prices and production and related netbacks from relevant properties could result in a decline in the Company's deemed asset value to a point where a deposit could be due in the future. It is also possible that we may have to transfer well licenses with favorable LMRs resulting in an overall reduction in our remaining LMR.

In June 2016, the AER implemented changes in the Liability Management Program ("LMP") which now requires purchasers of AER licensed oil and natural gas assets to have an LMR of 2.0 or higher immediately following a transfer, up from the previous requirement of 1.0 or higher. This change in the LMR requirement for well transfers will result in significantly less qualified buyers and may hinder our ability to generate capital by selling oil and natural gas assets. Additionally, it may inhibit our ability to grow through acquisitions without depositing collateral with the AER, as we do not currently have an LMR of 2.0 or higher.

Additionally, in July 2014, the AER introduced an Inactive Well Compliance Program which resulted in the acceleration of expenditures to suspend and/or abandon long-term inactive wells.

A requirement to provide security deposit funds to the AER in the future would result in the diversion of operating cash flows that could otherwise be used to fund oil and natural gas reserve replacement efforts, which could in turn have a material adverse effect on our business, financial condition and results of operations. If Barnwell fails to comply with the requirements of the LLR program, Barnwell's oil and natural gas subsidiary would be subject to the AER's enforcement provisions which could include suspension of operations and non-compliance fees and could ultimately result in the AER serving the Company with a closure order to shut-in all operated wells. Additionally, if Barnwell is non-compliant, the Company would be prohibited from transferring well licenses which would prohibit us from selling any oil and natural gas assets until the required cash deposit is made with the AER.

We are not fully insured against certain environmental risks, either because such insurance is not available or because of high premium costs. In particular, insurance against risks from environmental pollution occurring over time, as opposed to sudden and catastrophic damages, is not available on economically reasonable terms. Accordingly, any site reclamation or abandonment costs actually incurred in the ordinary course of business in a specific period could negatively impact our cash flow. Should we be unable to fully fund the cost of remedying an environmental problem, we might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy.

We may fail to fully identify potential problems related to acquired reserves or to properly estimate those reserves.

We periodically evaluate acquisitions of reserves, properties, prospects and leaseholds and other strategic transactions that appear to fit within our overall business strategy. Our evaluation includes an assessment of reserves, future oil and natural gas prices, operating costs, potential for future drilling and production, validity of the seller’s title to the properties and potential environmental issues, litigation and other liabilities.

In connection with these assessments, we perform a review of the subject properties that we believe to be generally consistent with industry practices. Our review will not reveal all existing or potential problems nor will it permit us to become sufficiently familiar with the properties to fully assess their deficiencies and

potential recoverable reserves. Inspections may not always be performed on every well, and environmental problems are not necessarily observable even when an inspection is undertaken. Even when problems are identified, the seller may be unwilling or unable to provide effective contractual protection against all or part of the problems. We often are not entitled to contractual indemnification for environmental liabilities or title defects in excess of the amounts claimed by us before closing and acquire properties on an “as is” basis.

There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and future production rates and costs with respect to acquired properties, and actual results may vary substantially from those assumed in the estimates.

Oil and natural gas prices are highly volatile and further declines, or extended low prices will significantly affect our financial condition and results of operations.

Much of our revenues and cash flow are greatly dependent upon prevailing prices for oil and natural gas. Lower oil and natural gas prices not only decrease our revenues on a per unit basis, but also reduce the amount of oil and natural gas we can produce economically, if any. Continued depressed prices will have a material adverse effect on our operations, financial condition, operating cash flows, borrowing ability, reserves, and the amount of capital that we are able to allocate for the acquisition and development of oil and natural gas reserves.

Various factors beyond our control affect prices of oil and natural gas including, but not limited to, changes in supply and demand, market uncertainty, weather, worldwide political instability, foreign supply of oil and natural gas, the level of consumer product demand, government regulations and taxes, the price and availability of alternative fuels and the overall economic environment. Energy prices are also subject to other political and regulatory actions outside our control, which may include changes in the policies of the Organization of Petroleum Exporting Countries or other developments involving or affecting oil-producing countries, or actions or reactions of the government of the United States in anticipation of or in response to such developments.

If oil and natural gas prices remain at their current level for an extended period of time or continue to decline, we may be required to take write-downs of the carrying values of our oil and natural gas properties.

Oil and natural gas prices affect the value of our oil and natural gas properties as determined in our full cost ceiling calculation. Any future ceiling test write-downs will result in reductions of the carrying value of our oil and natural gas properties and an equivalent charge to earnings.

The oil and natural gas industry is highly competitive.

We compete for capital, acquisitions of reserves, undeveloped lands, skilled personnel, access to drilling rigs, service rigs and other equipment, access to processing facilities, pipeline capacity and in many other respects with a substantial number of other organizations, many of which may have greater technical and financial resources than we do. Some of these organizations explore for, develop and produce oil and natural gas, carry on refining operations and market oil and other products on a worldwide basis. As a result of these complementary activities, some of our competitors may have competitive resources that are greater and more diverse than ours. Furthermore, many of our competitors may have a competitive advantage when responding to factors that affect demand for oil and natural gas production, such as changing prices and production levels, the cost and availability of alternative fuels and the application of government regulations. If our competitors are able to capitalize on these competitive resources, it could adversely affect our revenues.

An increase in operating costs greater than anticipated could have a material adverse effect on our results of operations and financial condition.

Higher operating costs for our properties will directly decrease the amount of cash flow received by us. Electricity, supplies, and labor costs are a few of the operating costs that are susceptible to material fluctuation. The need for significant repairs and maintenance of infrastructure may increase as our properties age. A significant increase in operating costs could result in materially lower operating results and cash flow.

Our operating results are affected by our ability to market the oil and natural gas that we produce.

Our business depends in part upon the availability, proximity and capacity of oil and natural gas gathering systems, pipelines and processing facilities. Canadian federal and provincial, as well as United States federal and state, regulation of oil and natural gas production, processing and transportation, tax and energy policies, general economic conditions, and changes in supply and demand could adversely affect our ability to produce and market oil and natural gas. If market factors change and inhibit the marketing of our production, overall production or realized prices may decline.

We are not the operator and have limited influence over the operations of the majority of our oil and natural gas properties.

We hold minority interests in the majority of our oil and natural gas properties. As a result, we cannot control the pace of exploration or development, major decisions affecting the drilling of wells, the plan for development and production at non-operated properties, or the timing and amount of costs related to abandonment and reclamation activities although contract provisions give Barnwell certain consent rights in some matters. The operator's influence over these matters can affect the pace at which we incur capital expenditures. Additionally, as certain underlying joint venture data is not accessible to us, we depend on the operators at non-operated properties to provide us with reliable accounting information. We also depend on operators and joint operators to maintain the financial resources to fund their share of all abandonment and reclamation costs.

The inability of one or more of our working interest partners to meet their obligations may adversely affect our financial results.

For our operated properties, we pay expenses and bill our non-operating partners for their respective shares of costs. Some of our non-operating partners may experience liquidity problems and may not be able to meet their financial obligations. Nonperformance by a non-operating partner could result in significant financial losses.

Liquidity problems encountered by our working interest partners or the third party operators of our non-operated properties may also result in significant financial losses as the other working interest partners or third party operators may be unwilling or unable to pay their share of the costs of projects as they become due.

Actual reserves will vary from reserve estimates.

Estimating reserves is inherently uncertain and the reserves estimation process involves significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data. The reserve data and standardized measures set forth herein are only estimates. Ultimately, actual reserves attributable to our properties will vary from estimates, and those variations may be material. The estimation of reserves involves a number of factors and assumptions, including, among others:

- oil and natural gas prices as prescribed by SEC regulations;
- historical production from our wells compared with production rates from similar producing wells in the area;
- future commodity prices, production and development costs, royalties and capital expenditures;
- initial production rates;
- production decline rates;
- ultimate recovery of reserves;
- success of future development activities;
- marketability of production;
- effects of government regulation; and
- other government levies that may be imposed over the producing life of reserves.

If these factors, assumptions and prices prove to be inaccurate, actual results may vary materially from reserve estimates.

Delays in business operations could adversely affect the amount and timing of our cash inflows.

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of our properties, and the delays of those operators in remitting payment to us, payments between any of these parties may also be delayed by:

- restrictions imposed by lenders;
- accounting delays;
- delays in the sale or delivery of products;
- delays in the connection of wells to a gathering system;
- blowouts or other accidents;
- adjustments for prior periods;
- recovery by the operator of expenses incurred in the operation of the properties; and
- the establishment by the operator of reserves for these expenses.

Any of these delays could expose us to additional third party credit risks.

The oil and natural gas market in which we operate exposes us to potential liabilities that may not be covered by insurance.

Our operations are subject to all of the risks associated with the operation and development of oil and natural gas properties, including the drilling of oil and natural gas wells, and the production and transportation of oil and natural gas. These risks include encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, other

environmental risks, fires and spills. A number of these risks could result in personal injury, loss of life, or environmental and other damage to our property or the property of others.

While we maintain reserves for anticipated liabilities and carry various levels of insurance, we could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings. We cannot fully protect against all of the risks listed above, nor are all of these risks insurable. There is no assurance that any applicable insurance or indemnification agreements will adequately protect us against liability for the risks listed above. We could face substantial losses if an event occurs for which we are not fully insured or are not indemnified against or a customer or insurer fails to meet its indemnification or insurance obligations. In addition, there can be no assurance that insurance will continue to be available to cover any or all of these risks, or, even if available, that insurance premiums or other costs will not rise significantly in the future, so as to make the cost of such insurance prohibitive.

Deficiencies in operating practices and record keeping, if any, may increase our risks and liabilities relating to incidents such as spills and releases and may increase the level of regulatory enforcement actions.

Our operations are subject to domestic and foreign government regulation and other risks, particularly in Canada and the United States.

Barnwell's oil and natural gas operations are affected by political developments and laws and regulations, particularly in Canada and the United States, such as restrictions on production, restrictions on imports and exports, the maintenance of specified reserves, tax increases and retroactive tax claims, expropriation of property, cancellation of contract rights, environmental protection controls, environmental compliance requirements and laws pertaining to workers' health and safety. Further, the right to explore for and develop oil and natural gas on lands in Alberta, Saskatchewan and British Columbia is controlled by the governments of each of those provinces. Changes in royalties and other terms of provincial leases, permits and reservations may have a substantial effect on Barnwell's operations. We derive a significant portion of our revenues from our operations in Canada; 26% in fiscal 2016.

Additionally, our ability to compete in the Canadian oil and natural gas industry may be adversely affected by governmental regulations or other policies that favor the awarding of contracts to contractors in which Canadian nationals have substantial ownership interests. Furthermore, we may face governmentally imposed restrictions or fees from time to time on the transfer of funds to the U.S.

Government regulations control and often limit access to potential markets and impose extensive requirements concerning employee safety, environmental protection, pollution control and remediation of environmental contamination. Environmental regulations, in particular, prohibit access to some markets and make others less economical, increase equipment and personnel costs and often impose liability without regard to negligence or fault. In addition, governmental regulations may discourage our customers' activities, reducing demand for our products and services.

Compliance with foreign tax and other laws may adversely affect our operations.

Tax and other laws and regulations are not always interpreted consistently among local, regional and national authorities. Income tax laws, other legislation or government incentive programs relating to the oil and natural gas industry may in the future be changed or interpreted in a manner that adversely affects us and our stockholders. It is also possible that in the future we will be subject to disputes concerning taxation and other matters in Canada, including the manner in which we calculate our income for tax purposes, and these disputes could have a material adverse effect on our financial performance.

Unforeseen title defects may result in a loss of entitlement to production and reserves.

Although we conduct title reviews in accordance with industry practice prior to any purchase of resource assets or property, such reviews do not guarantee that an unforeseen defect in the chain of title will not arise and defeat our title to the purchased assets. If such a defect were to occur, our entitlement to the production from such purchased assets could be jeopardized.

#### Risks Related to Land Investment Segment

Receipt of future percentage of sales payments from KD I and KD II and cash distributions from the Kukio Resort land development partnerships is dependent upon the developer's continued efforts to develop and market the property.

We have become increasingly dependent on the percentage of sales payments and cash distributions from our land investment segment as our revenues, cash flows and profits from our oil and natural gas business have continued to decline.

We are entitled to receive future payments based on a percentage of the sales prices of residential lots sold within the Kaupulehu area. However, in order to collect such percentage of sales payments we are reliant upon the developer, KD I and KD II, in which we own a 19.6% ownership interest, to continue to develop and market the lots. Additionally, future cash distributions from the Kukio Resort land development partnerships, which includes KD I and KD II, are dependent on future lot sales, specifically the remaining two acre ocean front parcel in Increment II by KD II. We do not have a controlling interest in the partnerships, and therefore are dependent on the general partner for development decisions. The receipt of future percentage of sales payments and cash distributions could be jeopardized if the developer fails to proceed with development and marketing of the property.

We hold investment interests in unconsolidated land development partnerships, which are accounted for using the equity method of accounting, in which we do not have a controlling interest. These investments involve risks and are highly illiquid.

These investments involve risks which include:

- the lack of a controlling interest in these partnerships and, therefore, the inability to require that the entities sell assets, return invested capital or take any other action without obtaining the majority vote of partners;
- potential for future additional capital contributions to fund operations and development activities;
- the adverse impact on overall profitability if the entities do not achieve the financial results projected;
- the reallocation of amounts of capital from other operating initiatives and/or an increase in indebtedness to pay potential future additional capital contributions, which could in turn restrict our ability to access additional capital when needed or to pursue other important elements of our business strategy;
- undisclosed, contingent or other liabilities or problems, unanticipated costs, and an inability to recover or manage such liabilities and costs; and
- certain underlying partnership data is not accessible to us, therefore we depend on the general partner to provide us with reliable accounting information.



We may be required to write-down the carrying value of our investment in the Kukio Resort land development partnerships if our assumptions about future lot sales and profitability prove incorrect. Any write-down would negatively impact our results of operations.

In analyzing the value of our investment in the Kukio Resort land development partnerships, we have made assumptions about the level of future lot sales, operating and development costs, cash generation and market conditions. These assumptions are based on management's and the general partner's best estimates and if the actual results differ significantly from these assumptions, we may not be able to realize the value of the assets recorded, which could lead to an impairment of certain of these assets in the future. Such a write-down would have a negative impact on our results of operations.

The market value of our real estate interests could decline, which may require a write-down of the carrying value of our residential lot held for sale to its estimated fair value. Any write-down would negatively impact our results of operations.

The market value of our residential lot held for sale can fluctuate significantly as a result of changing economic market conditions. If the market conditions deteriorate, we may be required to write-down the carrying value of our residential lot held for sale. Such write-down would have a negative impact on our results of operations.

Our land investment business is concentrated in the state of Hawaii. As a result, our financial results are dependent on the economic growth and health of Hawaii, particularly the island of Hawaii.

Barnwell's land investment segment is impacted by the condition of Hawaii's real estate market, which is affected by Hawaii's economy and Hawaii's tourism industry, as well as the United States and world economies in general. Any future cash flows from Barnwell's land development activities are subject to, among other factors, the level of real estate activity and prices, the demand for new housing and second homes on the island of Hawaii, the rate of increase in the cost of building materials and labor, the introduction of building code modifications, changes to zoning laws, and the level of confidence in Hawaii's economy.

We may be adversely impacted by the failure of the land development partnerships to fulfill their commitments.

Barnwell, as well as KD I, KD II and certain other owners of the partnerships, have jointly and severally executed a surety indemnification agreement. Bonds issued by the surety relate to certain construction contracts of KD I. If any such performance bonds are called, we may be obligated to reimburse the issuer of the performance bond as Barnwell, KD I and certain other owners are jointly and severally liable. If the partnerships do not fulfill their commitments, we may be required to expend additional resources or suffer losses, which could be significant.

The occurrence of natural disasters in Hawaii could adversely affect our business.

The occurrence of a natural disaster in Hawaii such as, but not limited to, earthquakes, landslides, hurricanes, tornadoes, tsunamis, volcanic activity, droughts and floods, could have a material adverse effect on our ability to develop and sell properties or realize income from our projects. The occurrence of a natural disaster could also cause property and flood insurance rates and deductibles to increase, which could reduce demand for our properties.

Our business is subject to extensive regulation which makes it difficult and expensive for us to conduct our operations.

We are subject to a wide variety of federal, state and local laws and regulations relating to land use and development and to environmental compliance and permitting obligations, including those related to the use, storage, discharge, emission, and disposal of hazardous materials. In most cases, approval to develop requires multiple permits which involve a long, uncertain and costly regulatory process. Any failure to comply with these laws could result in capital or operating expenditures or the imposition of severe penalties or restrictions on operations that could adversely affect present and future operations, or jeopardize our ability to sell the leasehold interest currently held.

#### Risks Related to Contract Drilling Segment

Demand for water well drilling and/or pump installation is volatile. A decrease in demand for our services could adversely affect our revenues and results of operations.

Demand for services is highly dependent upon land development activities in the state of Hawaii. As also noted above, the real estate development industry is cyclical in nature and is particularly vulnerable to shifts in local, regional, and national economic conditions outside of our control such as interest rates, housing demand, population growth, employment levels and job growth and property taxes. A decrease in water well drilling and/or pump installation contracts will result in decreased revenues and operating results.

A significant portion of our contract drilling business is dependent on municipalities and a decline in municipal spending could adversely impact our business.

A significant portion of our contract drilling division revenues is derived from water and infrastructure contracts with governmental entities or agencies; 36% in fiscal 2016. Reduced tax revenues and governmental budgets may limit spending by local governments which in turn will affect the demand for our services. Material reductions in spending by a significant number of local governmental agencies could have a material adverse effect on our business, results of operations, liquidity and financial position.

Our contract drilling operations face significant competition.

We face competition for our services from a variety of competitors. Many of our competitors utilize drilling rigs that drill as quickly as our equipment but require less labor. Our strategy is to compete based on pricing and to a lesser degree, quality of service. If we are unable to compete effectively with our competitors, our financial results could be adversely affected.

The loss of or damage to key vendor, customer or sub-contractor relationships would adversely affect our operations.

Our contract drilling business is dependent on our relationships with key vendors, customers and subcontractors. The loss of or damage to any of our key relationships could negatively affect our business.

Awarding of contracts is dependent upon our ability to obtain contract bid and performance bonds from insurers.

There can be no assurance that our ability to obtain such bonds will continue on the same basis as the past. Additionally, bonding insurance rates may increase and have an impact on our ability to win competitive bids, which could have a corresponding material impact on contract drilling operating results.

The contracts in our backlog are subject to change orders and cancellation.

Our backlog consists of the uncompleted portion of services to be performed under contracts that have been started and new contracts not yet started. Our contracts are subject to change orders and cancellations, and such changes could adversely affect our operations.

The occurrence of natural disasters in Hawaii could adversely affect our business.

The occurrence of a natural disaster in Hawaii such as, but not limited to, earthquakes, landslides, hurricanes, tornadoes, tsunamis, volcanic activity, droughts and floods, could have a material adverse effect on our ability to complete our contracts.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Oil and Natural Gas, Land Investment and Residential Real Estate Properties

The location and character of Barnwell's oil and natural gas properties, and its land investment and residential real estate properties, are described above under Item 1, "Business."

Corporate Offices

Barnwell, through wholly-owned subsidiaries, owns the 29th floor of a commercial office building in downtown Honolulu that it uses as its corporate office and a unit in a high rise cooperative apartment in New York City that was previously used as its New York office and is currently available for sale.

ITEM 3. LEGAL PROCEEDINGS

Barnwell is routinely involved in disputes with third parties that occasionally require litigation. In addition, Barnwell is required to maintain compliance with all current governmental controls and regulations in the ordinary course of business. Barnwell's management is not aware of any claims or litigation involving Barnwell that are likely to have a material adverse effect on its results of operations, financial position or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Disclosure is not applicable to Barnwell.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The principal market on which Barnwell’s common stock is being traded is the NYSE MKT under the ticker symbol “BRN.” The following tables present the quarterly high and low sales prices, on the NYSE MKT, for Barnwell’s common stock during the periods indicated:

| Quarter Ended      | High   | Low    | Quarter Ended      | High   | Low    |
|--------------------|--------|--------|--------------------|--------|--------|
| December 31, 2014  | \$2.99 | \$2.18 | December 31, 2015  | \$2.25 | \$1.85 |
| March 31, 2015     | \$3.06 | \$2.31 | March 31, 2016     | \$1.95 | \$1.30 |
| June 30, 2015      | \$3.44 | \$2.40 | June 30, 2016      | \$1.79 | \$1.31 |
| September 30, 2015 | \$2.70 | \$1.60 | September 30, 2016 | \$2.01 | \$1.40 |

Holder

As of December 1, 2016, there were 8,277,160 shares of common stock, par value \$0.50, outstanding. As of December 1, 2016, there were approximately 100 shareholders of record and approximately 1,000 beneficial owners.

Dividends

No dividends were declared or paid during fiscal years 2016 or 2015. The payment of future cash dividends will depend on, among other things, our financial condition, operating cash flows, the amount of cash inflows from land investment activities, and the level of our oil and natural gas capital expenditures.

Securities Authorized for Issuance Under Equity Compensation Plans

See the information included in Part III, Item 12, under the caption “Equity Compensation Plan Information.”

Stock Performance Graph and Cumulative Total Return

Disclosure is not required as Barnwell qualifies as a smaller reporting company.

ITEM 6. SELECTED FINANCIAL DATA

Disclosure is not required as Barnwell qualifies as a smaller reporting company.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist in the understanding of the Consolidated Balance Sheets of Barnwell Industries, Inc. and subsidiaries (collectively referred to herein as "Barnwell," "we," "our," "us" or the "Company") as of September 30, 2016 and 2015, and the related Consolidated Statements of Operations, Comprehensive Loss, Cash Flows, and Equity for the years ended September 30, 2016 and 2015. This discussion should be read in conjunction with the consolidated financial statements and related Notes to Consolidated Financial Statements included in this report.

Use of Estimates in the Preparation of Financial Statements

The preparation of the financial statements in conformity with U.S. GAAP requires management of Barnwell to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ significantly from those estimates.

Critical Accounting Policies and Estimates

The Company considers an accounting estimate to be critical if the accounting estimate requires the Company to make assumptions that are difficult or subjective about matters that were highly uncertain at the time that the accounting estimate was made, and changes in the estimate that are reasonably likely to occur in periods subsequent to the period in which the estimate was made, or use of different estimates that the Company could have used in the current period, would have a material impact on the Company's financial condition or results of operations. The most critical accounting policies inherent in the preparation of the Company's financial statements are described below. We continue to monitor our accounting policies to ensure proper application of current rules and regulations.

Oil and Natural Gas Properties - full cost ceiling calculation and depletion

Policy Description

We use the full cost method of accounting for our oil and natural gas properties under which we are required to conduct quarterly calculations of a "ceiling," or limitation, on the carrying value of oil and natural gas properties. The ceiling limitation is the sum of 1) the discounted present value (at 10%), using average first-day-of-the-month prices during the 12-month period ending as of the balance sheet date held constant over the life of the reserves, of Barnwell's estimated future net cash flows from estimated production of proved oil and natural gas reserves, less estimated future expenditures to be incurred in developing and producing the proved reserves but excluding future cash outflows associated with settling asset retirement obligations; plus 2) the cost of major development projects and unproven properties not subject to depletion, if any; plus 3) the lower of cost or estimated fair value of unproven properties included in costs subject to depletion; less 4) related income tax effects. If net capitalized costs exceed this limit, the excess is expensed.

Judgments and Assumptions

The estimate of our oil and natural gas reserves is a major component of the ceiling calculation and represents the component that requires the most subjective judgments. Estimates of reserves are forecasts based on engineering data, historical data, projected future rates of production and the timing of future expenditures. The process of estimating oil and natural gas reserves requires substantial judgment, resulting



in imprecise determinations, particularly for new discoveries. Our reserve estimates are prepared at least annually by independent petroleum reserve engineers and quarterly by internal personnel. The passage of time provides more quantitative and qualitative information regarding estimates of reserves, and revisions are made to prior estimates to reflect updated information. In the last three fiscal years, annual revisions to our reserve volume estimates have averaged 14.7% of the previous year's estimate. However, there can be no assurance that more significant revisions will not be necessary in the future. If future significant revisions are necessary that reduce previously estimated reserve quantities, such revisions could result in a write-down of oil and natural gas properties. If reported reserve volumes were revised downward by 5% at the end of fiscal 2016, the ceiling limitation would have decreased approximately \$324,000 before income taxes, which would not have resulted in a reduction of the carrying value of oil and gas properties before income taxes.

In addition to the impact of the estimates of proved reserves on the calculation of the ceiling, estimated proved reserves are also a significant component of the quarterly calculation of depletion expense. The lower the estimated reserves, the higher the depletion rate per unit of production. Conversely, the higher the estimated reserves, the lower the depletion rate per unit of production. If reported reserve volumes were revised downward by 5% as of the beginning of fiscal 2016, depletion for fiscal 2016 would have increased by approximately \$56,000.

While the quantities of proved reserves require substantial judgment, the associated prices of oil, natural gas and natural gas liquids reserves are the average first-day-of-the-month prices during the 12-month period ending in the reporting period on a constant basis as prescribed by SEC regulations. Additionally, the applicable discount rate that is used to calculate the discounted present value of the reserves is mandated at 10%. Costs included in future net revenues are determined in a similar manner. As such, the future net revenues associated with the estimated proved reserves are not based on an assessment of future prices or costs.

#### Asset and Investment Held for Sale

##### Policy Description

Asset and investment held for sale are recorded at the lower of cost or estimated fair value less costs to sell. If an asset's fair value less costs to sell, based on estimated future cash flows, management estimates or market comparisons, is less than its carrying amount, the asset is written down to its estimated fair value less costs to sell.

##### Judgments and Assumptions

Asset and investment held for sale are reviewed for possible impairment when events or circumstances indicate that the carrying values may not be recoverable. If the evaluation determines that the recorded value will not be recovered, the carrying value of asset or investment held for sale are written down to the estimated fair value less costs to sell. This evaluation requires management to make assumptions and apply considerable judgment based on market conditions and comparable sales transactions. Changes in assumptions may require valuation adjustments that may materially impact the Company's future operating results.



## Equity Method Investments

### Policy Description

Under the equity method of accounting, the Company's proportional share of the investee's underlying net income or loss, adjustments to recognize certain differences between the carrying value of the investment and the equity in net assets of the investee at the date of investment, impairments, and other adjustments required by the equity method are recorded as part of the Company's net earnings (loss) and increases or decreases to the carrying value of the investee. Distributions received from the investment reduce the Company's carrying value of the investee.

Equity method investments are reviewed for possible impairment when events or circumstances indicate that there is an other-than-temporary loss in value. An investment is written down to fair value if there is evidence of a loss in value which is other-than-temporary.

### Judgments and Assumptions

In determining the fair value of an investment and assessing whether any identified impairment is other-than-temporary, significant estimates and considerable judgment are involved. In evaluating whether an impairment is other-than-temporary, the Company considers all available information, including the length of time and extent of the impairment, the financial condition and near-term prospects of the affiliate, the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value, and projected industry and economic trends. These estimates and judgments are based, in part, on the Company's current and future evaluation of economic conditions, as well as the affiliate's current and future plans to the extent that such plans are known to the Company. Impairment calculations contain additional uncertainties because they require management to make assumptions and apply judgments to estimates of future cash flows, probabilities related to various cash flow scenarios, and appropriate discount rates. Changes in these and other assumptions could affect the projected operational results of the unconsolidated affiliates and, accordingly, may require valuation adjustments to the Company's investments that may materially impact the Company's financial condition or its future operating results.

## Income Taxes

### Policy Description

Income taxes are determined using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax impacts of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred income tax assets are routinely assessed for realizability. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Barnwell recognizes the financial statement effects of tax positions when it is more likely than not that the position will be sustained by a taxing authority.

## Judgments and Assumptions

We make estimates and judgments in determining our income tax expense for each reporting period. Significant changes to these estimates could result in an increase or decrease in our tax provision in future periods. We are also required to make judgments about the recoverability of deferred tax assets and when it is more likely than not that all or a portion of deferred tax assets will not be realized, a valuation allowance is provided. We consider available positive and negative evidence and available tax planning strategies when assessing the realizability of deferred tax assets. Accordingly, changes in our business performance and unforeseen events could require a further increase in the valuation allowance or a reversal in the valuation allowance in future periods. This could result in a charge to, or an increase in, income in the period such determination is made, and the impact of these changes could be material.

In addition, Barnwell operates within the U.S. and Canada and is subject to audit by taxing authorities in these jurisdictions. Barnwell records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter. Tax benefits are recognized when we determine that it is more likely than not that such benefits will be realized. Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations and rules. Management considers the possibility of alternative outcomes based upon past experience, previous actions by taxing authorities (e.g., actions taken in other jurisdictions) and advice from tax experts. Where uncertainty exists due to the complexity of income tax statutes and where the potential tax amounts are significant, we generally seek independent tax opinions to support our positions. If our evaluation of the likelihood of the realization of benefits is inaccurate, we could incur additional income tax and interest expense that would adversely impact earnings, or we could receive tax benefits greater than anticipated which would positively impact earnings, either of which could be material.

Management believes that Barnwell's provision for uncertain tax positions is reasonable. However, the ultimate resolution of tax treatments disputed by governmental authorities may adversely affect Barnwell's current and deferred income taxes.

## Asset Retirement Obligation

### Policy Description

Barnwell records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. Barnwell's estimated site restoration and abandonment costs of its oil and natural gas properties are capitalized as part of the carrying amount of oil and natural gas properties and depleted over the life of the related reserves. When the assumptions used to estimate a recorded asset retirement obligation change, a revision is recorded to both the asset retirement obligation and the capitalized cost of asset retirements. The liability is accreted at the end of each period through charges to oil and natural gas operating expense.

### Judgments and Assumptions

The asset retirement obligation is recorded at fair value in the period in which it is incurred along with a corresponding increase in the carrying amount of the related asset. Barnwell has estimated fair value by discounting the estimated future cash outflows required to settle abandonment and restoration liabilities. The present value calculation includes numerous estimates, assumptions and judgments regarding the existence of liabilities, the amount and timing of cash outflows required to settle the liability, what constitutes



adequate restoration, inflation factors, credit adjusted discount rates, and consideration of changes in legal, regulatory, environmental and political environments. Abandonment and restoration cost estimates are determined in conjunction with Barnwell's reserve engineers based on historical information regarding costs incurred to abandon and restore similar well sites, information regarding current market conditions and costs, and knowledge of subject well sites and properties. The process of estimating the asset retirement obligation requires substantial judgment and use of estimates, resulting in imprecise determinations. Actual asset retirement obligations through the end of fiscal 2016 have not materially differed from our estimates. However, because of the inherent imprecision of estimates as described above, there can be no assurance that material differences will not occur in the future. A 20% increase in accretion and depletion of the asset retirement obligation would have increased Barnwell's fiscal 2016 expenses before taxes by approximately \$346,000.

#### Overview

Barnwell is engaged in the following lines of business: 1) acquiring, developing, producing and selling oil and natural gas in Canada (oil and natural gas segment), 2) investing in land interests in Hawaii (land investment segment), 3) drilling wells and installing and repairing water pumping systems in Hawaii (contract drilling segment), and 4) developing homes for sale in Hawaii (residential real estate segment).

#### Oil and Natural Gas Segment

Barnwell is involved in the acquisition and development of oil and natural gas properties in Canada where we initiate and participate in acquisition and developmental operations for oil and natural gas on properties in which we have an interest, and evaluate proposals by third parties with regard to participation in exploratory and developmental operations elsewhere.

Barnwell sells all of its oil and natural gas liquids production under short-term contracts with marketers of oil. Natural gas sold by Barnwell is generally sold under short-term contracts with prices indexed to market prices. The price of natural gas, oil and natural gas liquids is freely negotiated between the buyers and sellers. Oil and natural gas prices are determined by many factors that are outside of our control. Market prices for oil and natural gas products are dependent upon factors such as, but not limited to, changes in market supply and demand, which are impacted by overall economic activity, changes in weather, pipeline capacity constraints, inventory storage levels, and output. Oil and natural gas prices are very difficult to predict and fluctuate significantly. Natural gas prices tend to be higher in the winter than in the summer due to increased demand, although this trend has become less pronounced due to the increased use of natural gas to generate electricity for air conditioning in the summer and increased natural gas storage capacity in North America.

Oil and natural gas exploration, development and operating costs generally follow trends in product market prices, thus in times of higher product prices the cost of exploring, developing and operating the oil and natural gas properties will tend to escalate as well. Capital expenditures are required to fund the exploration, development, and production of oil and natural gas. Cash outlays for capital expenditures are largely discretionary, however, a minimum level of capital expenditures is required to replace depleting reserves. Due to the nature of oil and natural gas exploration and development, significant uncertainty exists as to the ultimate success of any drilling effort.

## Land Investment Segment

The land investment segment is comprised of the following components:

1) Through Barnwell's 77.6% interest in Kaupulehu Developments, a Hawaii general partnership, 75% interest in KD Kona 2013 LLLP, a Hawaii limited liability limited partnership, and 34.45% non-controlling interest in KKM Makai, LLLP, a Hawaii limited liability limited partnership, the Company's land investment interests include the following:

The right to receive percentage of sales payments from KD Acquisition, LLLP ("KD I") resulting from the sale of single-family residential lots by KD I, within Increment I of the approximately 870 acres of the Kaupulehu Lot 4A area located in the North Kona District of the island of Hawaii. Kaupulehu Developments is entitled to receive payments from KD I based on the following percentages of the gross receipts from KD I's sales: 9% of the gross proceeds from single-family lot sales up to aggregate gross proceeds of \$100,000,000; 10% of such aggregate gross proceeds greater than \$100,000,000 up to \$300,000,000; and 14% of such aggregate gross proceeds in excess of \$300,000,000. Increment I is an area zoned for approximately 80 single-family lots, of which 25 remained to be sold at September 30, 2016, and a beach club on the portion of the property bordering the Pacific Ocean, and is partially developed.

The right to receive percentage of sales payments from KD Acquisition II, LLLP ("KD II") resulting from the sale of lots and/or residential units by KD II, within Increment II of Kaupulehu Lot 4A. Increment II is the remaining portion of the approximately 870-acre property and is zoned for single-family and multi-family residential units and a golf course and clubhouse. Kaupulehu Developments is entitled to receive payments from KD II based on a percentage of the gross proceeds from KD II's sales ranging from 8% to 10% of the price of improved or unimproved lots or 2.60% to 3.25% of the price of units constructed on a lot, to be determined in the future depending upon a number of variables, including whether the lots are sold prior to improvement. Kaupulehu Developments is also entitled to receive up to \$8,000,000 in additional payments after the members of KD II have received distributions equal to the capital they invested in the project. Two ocean front parcels that are approximately two to three acres in size fronting the ocean were developed within Increment II by KD II. At September 30, 2016, one of the parcels remained to be sold, and the remaining acreage within Increment II is not yet under development.

An indirect 19.6% non-controlling ownership interest in the Kukio Resort land development partnerships which is comprised of KD Kukio Resorts, LLLP, KD Maniniowali, LLLP and KD Kaupulehu, LLLP. These entities own certain real estate and development rights interests in the Kukio, Maniniowali and Kaupulehu portions of Kukio Resort, a private residential community on the Kona coast of the island of Hawaii, as well as Kukio Resort's real estate sales office operations. KD Kaupulehu, LLLP, which wholly owns KD I and KD II, is the developer of Kaupulehu Lot 4A Increments I and II, the area in which Barnwell has interests in percentage of sales payments. The partnerships derive income from the sale of residential parcels as well as from commission on real estate sales by the real estate sales office. As of September 30, 2016, 25 lots remained to be sold within Kaupulehu Increment I and one ocean front parcel over two acres in size remained to be sold in Kaupulehu Increment II.

- Approximately 1,000 acres of vacant leasehold land zoned conservation in the Kaupulehu Lot 4C area located adjacent to the 870-acre Lot 4A described above, which currently has no development potential without both a development agreement with the lessor and zoning reclassification.
- 2) Barnwell owns an 80% interest in Kaupulehu 2007, a Hawaii limited liability limited partnership. At September 30, 2016, Kaupulehu 2007 owned one residential parcel in the Kaupulehu Increment I area that was available for sale.

#### Contract Drilling Segment

Barnwell drills water and water monitoring wells and installs and repairs water pumping systems in Hawaii. Contract drilling results are highly dependent upon the quantity, dollar value and timing of contracts awarded by governmental and private entities and can fluctuate significantly.

#### Residential Real Estate Segment

Barnwell, through its 80%-owned real estate joint venture, Kaupulehu 2007, constructs and sells luxury single-family homes. Kaupulehu 2007, in addition to the parcel described above, owned a luxury residence in the Kaupulehu area, which sold in April 2016. Kaupulehu 2007 does not currently have any homes under construction.

#### Business Environment

Our operations are located in Canada and in the state of Hawaii. Accordingly, our business performance is directly affected by macroeconomic conditions in those areas, as well as general economic conditions of the U.S. domestic and world economies.

#### Oil and Natural Gas Segment

The industry has experienced a prolonged period of low oil and natural gas prices that has negatively impacted our operating results, cash flows and liquidity. Credit and capital markets for oil and natural gas companies have been negatively affected as well, resulting in a decline in sources of financing as compared to previous years.

A global oversupply of crude oil resulting from increased global oil production and weakening demand is continuing to have a negative impact on global oil prices. Barnwell realized an average price for oil of \$32.42 per barrel during the year ended September 30, 2016, down 30% from \$46.44 per barrel realized during the prior year. We expect that oil prices will remain volatile in the near term and may be affected by economic growth figures, political instability, supply and pipeline capacity constraints.

Alberta natural gas prices dropped to their lowest levels in almost two decades due primarily to above average winter temperatures in the 2015-2016 season and record storage that exceeds the five-year average. Barnwell realized an average price for natural gas of \$1.27 per Mcf during the year ended September 30, 2016, down 43% from \$2.23 per Mcf realized during the prior year.

Oil and natural gas prices affect the value of our oil and natural gas properties as determined in our full cost ceiling calculation. Based on the impact of recent oil and natural gas prices on the 12-month rolling

average first-day-of-the-month prices, the Company recorded a ceiling test write-down of its oil and natural gas properties during the year ended September 30, 2016 in the amount of \$1,154,000.

In September 2015, Barnwell sold its interests in its principal oil and natural gas properties located in the Dunvegan and Belloy areas of Alberta, Canada which generated approximately \$14,000,000 in cash. However, as a result of this sale, our oil and natural gas segment revenue and operating cash flow have significantly declined. Due to the negative impacts of i) declines in oil and natural gas prices; ii) declines in oil and natural gas production due to both oil and natural gas property sales and the natural decline oil and natural gas wells experience as they age; iii) increasing costs due to both inflation and the age of Barnwell's properties and other factors, Barnwell's existing oil and natural gas assets are projected to have minimal cash flow from operations at current prices and production levels.

In April 2016, Barnwell's revolving credit facility at Royal Bank of Canada was terminated. The termination was due to Barnwell's significant reduction in reserves as a result of the aforementioned sale of properties in September 2015 as well as a tightening credit market for oil and natural gas companies due to current low oil and natural gas prices and reductions in Royal Bank of Canada's forecast of oil and natural gas prices which decreased its valuation of the Company's remaining oil and natural gas assets pledged as security. In June 2016, Barnwell entered into a new agreement with Royal Bank of Canada for a revolving demand facility in the amount of \$500,000 Canadian dollars, or U.S. \$381,000 at the September 30, 2016 exchange rate, which is secured by a \$500,000 Canadian dollar, or U.S. \$381,000, guaranteed investment certificate pledged to the Royal Bank of Canada.

During fiscal 2015, Barnwell determined that it was not more likely than not that all of our oil and natural gas deferred tax assets under Canadian tax law were realizable due to significant declines in oil and natural gas prices, which in turn restricted funds available for the oil and natural gas capital expenditures needed to replace production and abate declining reserves. As a result, the Company recorded a valuation allowance of \$1,028,000 during the year ended September 30, 2015, and an increase in the valuation allowance of \$292,000 for the year ended September 30, 2016, for the portion of Canadian tax law deferred tax assets primarily related to asset retirement obligations that may not be realizable. This valuation allowance has negatively impacted our financial results. Additional valuation allowances for these deferred tax assets may be required in the future based on changes in facts and circumstances and future activity.

Barnwell's oil and natural gas segment is subject to the provisions of the Alberta Energy Regulator's ("AER") Licensee Liability Rating ("LLR") program. Under the LLR program the AER calculates a Liability Management Ratio ("LMR") for a company based on the ratio of the company's deemed assets over its deemed liabilities relating to wells and facilities for which the company is the licensed operator. The LMR assessment is designed to assess a company's ability to address its suspension, abandonment, remediation, and reclamation liabilities. The value of the deemed assets is based on each well's most recent twelve months of production and a rolling three-year average industry netback as determined by the AER annually. The AER has not recalculated the three-year average industry netback since March 2015 making the current value a premium to what most producers have been realizing. A recalculation of the value using current industry netback values would likely have a significant negative impact on our LMR. Companies with an LMR less than 1.0 are required to deposit funds with the AER to cover future deemed liabilities. At September 30, 2016, the Company had sufficient deemed asset value that no security deposit was due.

In June 2016, the AER implemented changes in the Liability Management Program ("LMP") which now requires purchasers of AER licensed oil and natural gas assets to have an LMR of 2.0 or higher immediately following the transfer of a license, up from the previous requirement of 1.0 or higher. This change in the LMR requirement for well transfers will result in significantly less qualified buyers and may

hinder our ability to generate capital by selling oil and natural gas assets. Additionally, it may inhibit our ability to grow through acquisitions without depositing collateral with the AER, as we do not currently have an LMR of 2.0 or higher.

A requirement to provide security deposit funds to the AER in the future for asset retirement obligations would result in the diversion of cash and cash flows that could otherwise be used to fund oil and natural gas reserve additions, which in turn will have a material adverse effect on our business, financial condition and results of operations. If Barnwell fails to comply with the requirements of the LLR program, Barnwell's oil and natural gas subsidiary would be subject to the AER's enforcement provisions which could include suspension of operations and non-compliance fees and could ultimately result in the AER serving the Company with a closure order to shut-in all operated wells. Additionally, if Barnwell is non-compliant, the Company would be prohibited from transferring well licenses which would prohibit us from selling any oil and natural gas assets until the required cash deposit is made with the AER.

#### Land Investment Segment

Future land investment percentage of sales payments and any future cash distributions from our investment in the Kukio Resort land development partnerships are dependent upon the sale of the remaining 25 residential lots within Increment I and one ocean front lot over two acres in size within Increment II of Kaupulehu Lot 4A.

Demand for residential homes and lots on the Kona/Kohala coast has improved with increased developer and resale volumes as compared to recent years. However, the rate of developer lot sales has decreased in fiscal 2016 relative to fiscal 2015. The amount and timing of future land investment segment proceeds from percentage of sales payments and cash distributions from the Kukio Resort land development partnerships are highly uncertain and out of our control, and there is no assurance with regards to the amounts of future sales of residential lots within Increments I and II.

Barnwell estimates that it will be heavily reliant upon land investment segment proceeds in order to provide sufficient liquidity to fund our operations in the long term however there can be no assurance that the amount of future land investment segment proceeds will provide the liquidity required.

#### Contract Drilling Segment

Demand for water well drilling and/or pump installation and repair services is volatile and dependent upon land development activities within the state of Hawaii. Management currently estimates that well drilling activity for fiscal 2017 will increase as compared to fiscal 2016 based upon the value of contracts in backlog.

#### Results of Operations

##### Summary

Net loss attributable to Barnwell for fiscal 2016 totaled \$3,615,000, a \$4,878,000 decrease in operating results from a net earnings of \$1,263,000 in fiscal 2015. The following factors affected the results of operations for the current fiscal year as compared to the prior fiscal year:

A \$1,329,000 decrease in land investment segment operating profit, before income taxes and non-controlling interests' share of such profits, due to decreased percentage of sales receipts as a result of fewer lot sales by the Kukio Resort land development partnerships;





A \$1,038,000 decrease in contract drilling segment operating results, before income taxes, primarily resulting from decreased water well drilling activity;

A \$835,000 decrease in oil and natural gas segment operating results, before impairment of assets and income taxes, due primarily to decreases in prices for oil and natural gas;

A \$2,190,000 decrease in general and administrative expenses primarily due to cost reduction efforts and a \$752,000 foreign currency transaction loss recognized in the prior year due to the repayment of the U.S. dollar denominated credit facility using Canadian dollars;

A \$1,154,000 impairment of oil and natural gas properties recorded in the current year compared to a \$316,000 impairment of real estate held for sale in the prior year;

A \$6,217,000 gain recognized in the prior fiscal year on the sale of the Company's principal oil and natural gas properties located in the Dunvegan and Belloy areas of Alberta, Canada compared to a \$472,000 gain recognized in the current fiscal year upon the finalization of the accounting for the Dunvegan sale; and

A \$1,044,000 increase in equity in income from affiliates recorded as a result of increased operating results of the Kukio Resort land development partnerships.

#### General

Barnwell conducts operations in the U.S. and Canada. Consequently, Barnwell is subject to foreign currency translation and transaction gains and losses due to fluctuations of the exchange rates between the Canadian dollar and the U.S. dollar. Barnwell cannot accurately predict future fluctuations of the exchange rates and the impact of such fluctuations may be material from period to period.

The average exchange rate of the Canadian dollar to the U.S. dollar decreased 7% in fiscal 2016, as compared to fiscal 2015, and the exchange rate of the Canadian dollar to the U.S. dollar increased 2% at September 30, 2016, as compared to September 30, 2015. Accordingly, the assets, liabilities, stockholders' equity, and revenues and expenses of Barnwell's subsidiaries operating in Canada have been adjusted to reflect the change in the exchange rates. Barnwell's Canadian dollar assets are greater than its Canadian dollar liabilities; therefore, increases or decreases in the value of the Canadian dollar to the U.S. dollar generate other comprehensive income or loss, respectively. Other comprehensive income and losses are not included in net income. Other comprehensive income due to foreign currency translation adjustments, net of taxes, for fiscal 2016 was \$87,000, a \$960,000 change from other comprehensive loss due to foreign currency translation adjustments, net of taxes, of \$873,000 in fiscal 2015. There were no taxes on other comprehensive income (loss) due to foreign currency translation adjustments in fiscal 2016 and 2015 due to a full valuation allowance on the related deferred tax assets.

## Oil and natural gas

## Selected Operating Statistics

The following tables set forth Barnwell's annual average prices per unit of production and annual net production volumes for fiscal 2016 as compared to fiscal 2015. Production amounts reported are net of royalties.

|                    | Annual Average Price Per Unit |         |                        |       |
|--------------------|-------------------------------|---------|------------------------|-------|
|                    | 2016                          | 2015    | Increase<br>(Decrease) |       |
|                    |                               |         | \$                     | %     |
| Natural gas (Mcf)* | \$1.27                        | \$2.23  | \$(0.96)               | (43)% |
| Oil (Bbls)         | \$32.42                       | \$46.44 | \$(14.02)              | (30)% |
| Liquids (Bbls)     | \$23.82                       | \$18.16 | \$5.66                 | 31%   |

  

|                   | Annual Net Production |           |                        |       |
|-------------------|-----------------------|-----------|------------------------|-------|
|                   | 2016                  | 2015      | Increase<br>(Decrease) |       |
|                   |                       |           | Units                  | %     |
| Natural gas (Mcf) | 476,000               | 1,688,000 | (1,212,000)            | (72)% |
| Oil (Bbls)        | 78,000                | 78,000    | —                      | —%    |
| Liquids (Bbls)    | 6,000                 | 65,000    | (59,000)               | (91)% |

\* Natural gas price per unit is net of pipeline charges.

Oil and natural gas revenues decreased \$5,831,000 (65%) from \$9,008,000 in fiscal 2015 to \$3,177,000 in fiscal 2016, primarily due to decreases in natural gas and natural gas liquids production as a result of the divestiture of Barnwell's interests in the Dunvegan and Belloy area properties in September 2015, which decreased revenues by \$4,298,000 for the year ended September 30, 2016, as well as decreases in prices realized for oil and natural gas.

The oil and natural gas segment generated a \$2,355,000 operating loss in fiscal 2016 before general and administrative expenses, a decrease in operating results of \$1,989,000 as compared to the \$366,000 operating loss generated in fiscal 2015. Operating results decreased due to the significant decrease in revenues discussed above and an impairment of oil and natural gas assets of \$1,154,000 recognized in fiscal 2016, partially offset by a decrease of \$3,245,000 (51%) in oil and natural gas operating expenses and a decrease of \$1,751,000 (59%) in oil and natural gas depletion in the current fiscal year as compared to the prior year.

Oil and natural gas operating expenses decreased in fiscal 2016 as compared to fiscal 2015 primarily as a result of the sale of Dunvegan in September 2015, which decreased oil and natural gas operating expenses by \$2,497,000. Additionally, the average exchange rate of the Canadian dollar to the U.S. dollar decreased 7% during the year ended September 30, 2016, which resulted in a \$273,000 decrease in operating expenses as compared to the prior year.

Oil and natural gas depletion decreased in fiscal 2016 as compared to fiscal 2015 primarily due to a 62% decrease in net production primarily as a result of the sale of Dunvegan in September 2015. Further impacting depletion for the year ended September 30, 2016, was a 17% increase in the depletion rate and a 7% decrease in the average exchange rate of the Canadian dollar to the U.S. dollar as compared to prior year.

The increase in the depletion rate was due to both downward revisions in reserve volumes resulting from lower rolling average historical first-day-of-the-month oil and natural gas prices, and Barnwell's cost of acquiring and developing proven reserves in the current fiscal year.

#### Sale of interest in leasehold land

Kaupulehu Developments is entitled to receive a percentage of the gross receipts from the sales of lots in Increment I from KD I and the sales of lots and/or residential units in Increment II from KD II. KD I and KD II are land development partnerships in which Barnwell holds an indirect 19.6% non-controlling ownership interest accounted for under the equity method of investment. The percentage payments are part of transactions which took place in 2004 and 2006 where Kaupulehu Developments sold its leasehold interests in Increment I and Increment II to KD I's and KD II's predecessors in interest, respectively, which was prior to Barnwell's affiliation with KD I and KD II which commenced on November 27, 2013, the acquisition date of our ownership interest in the Kukio Resort land development partnerships.

The following table summarizes the percentage of sales payment revenues received from KD I and KD II:

|  | Year ended<br>September 30, |             |
|--|-----------------------------|-------------|
|  | 2016                        | 2015        |
| Sale of interest in leasehold land:                |                             |             |
| Proceeds   | \$2,255,000                 | \$3,772,000 |
| Fees   | (340,000 )                  | (528,000 )  |
| Revenues – sale of interest in leasehold land, net | \$1,915,000                 | \$3,244,000 |

During the year ended September 30, 2016, Barnwell received \$2,255,000 in percentage of sales payments from KD I and KD II from the sale of three lots within Increment I and the sale of one of the two large ocean front lots within Increment II. During the year ended September 30, 2015, Barnwell received \$3,772,000 in percentage of sales payments from KD I from the sale of six contiguous lots within Increment I to a single buyer and 11 additional individually sold lots within Increment I.

As of September 30, 2016, 25 single-family lots, of the 80 lots developed within Increment I, remained to be sold. Two ocean front parcels approximately two to three acres in size fronting the ocean were developed within Increment II by KD II, of which one remained to be sold at September 30, 2016, and the remaining acreage within Increment II is not yet under development. It is uncertain when or if KD II will develop the other areas of Increment II, and there is no assurance with regards to the amounts of future sales from Increments I and II.

#### Contract drilling

Contract drilling revenues and costs are associated with well drilling and water pump installation, replacement and repair in Hawaii.

Contract drilling revenues decreased \$2,653,000 (54%) to \$2,233,000 in fiscal 2016, as compared to \$4,886,000 in fiscal 2015, and contract drilling costs decreased \$1,594,000 (43%) to \$2,098,000 in fiscal 2016, as compared to \$3,692,000 in fiscal 2015. The contract drilling segment generated a \$116,000 operating loss before general and administrative expenses during fiscal 2016, a decrease in operating results of \$1,038,000 as compared to an operating profit before general and administrative expenses of \$922,000 in



fiscal 2015. The decrease in operating results was primarily due to decreased water well drilling activity in the current year.

At September 30, 2016, there was a backlog of two well drilling and five pump installation and repair contracts, of which one well drilling and four pump installation and repair contracts were in progress as of September 30, 2016. The backlog of contract drilling revenues as of December 1, 2016 was approximately \$3,800,000, of which \$3,400,000 is expected to be realized in fiscal 2017 with the remainder to be recognized in the following fiscal year.

Contract drilling revenues and costs are not seasonal in nature, but can fluctuate significantly based on the awarding and timing of contracts, which are determined by contract drilling customer demand. There has been significant volatility in demand for water well drilling contracts in recent years due largely to the impact of the recession and reduced governmental capital improvement budgets. This has generally led to increased competition for available contracts and lower margins on awarded contracts. The Company is unable to predict the near-term and long-term availability of water well drilling and pump installation and repair contracts as a result of this volatility in demand.

#### Residential real estate revenues and expenses

In April 2016, the residence that was available for sale in Lot 4A Increment I was sold for \$5,700,000 in gross proceeds, before commission and other closing costs, and as a result of the sale operating profit before general and administrative expenses in the amount of \$190,000 was recognized during the year ended September 30, 2016.

#### Gas processing and other

Gas processing and other income decreased \$133,000 (34%) to \$262,000 in fiscal 2016, as compared to \$395,000 in fiscal 2015 primarily due to a \$96,000 insurance claim for stolen and damaged contract drilling property in fiscal 2015 and a decrease in gas processing revenues in the current year as compared to the prior year due to the divestiture of Barnwell's interests in the Dunvegan and Belloy area properties in September 2015.

#### General and administrative expenses

General and administrative expenses decreased \$2,190,000 (26%) to \$6,361,000 in fiscal 2016, as compared to \$8,551,000 in fiscal 2015. The decrease was primarily due to an \$806,000 decrease in compensation costs and a \$102,000 decrease in travel and entertainment expenses all due to cost reduction efforts, a \$752,000 foreign currency transaction loss recognized in the prior year whereas there was no such loss recognized in the current year, a \$449,000 decrease in professional services and a \$122,000 decrease in holding costs related to the real estate held for sale which was sold in April 2016.

#### Depletion, depreciation, and amortization

Depletion, depreciation, and amortization decreased \$1,757,000 (52%) in fiscal 2016 as compared to fiscal 2015 primarily due to the decrease in oil and natural gas depletion as discussed in the "Oil and natural gas" section above.

#### Impairment of assets

Under the full cost method of accounting, the Company performs quarterly oil and natural gas ceiling test calculations. Barnwell's net capitalized costs exceeded the ceiling limitations at June 30, 2016. As such, Barnwell reduced the carrying value of its oil and natural gas properties by \$1,154,000 during the year ended September 30, 2016.

Changes in the 12-month rolling average first-day-of-the-month prices for oil, natural gas and natural gas liquids prices, the value of reserve additions as compared to the amount of capital expenditures to obtain them, and changes in production rates and estimated levels of reserves, future development costs and the market value of unproved properties, impact the determination of the maximum carrying value of oil and natural gas properties. The Company may be required to record reductions in the carrying value of its oil and natural gas properties in the future, however, the Company is unable to estimate a range of the amount of any potential future reduction in carrying value as variables that impact the ceiling limitation are dependent upon future prices and actual results of activity.

During fiscal 2015, Barnwell determined that the carrying value of its real estate held for sale was impaired and recorded a write-down of \$316,000, primarily as a result of the decision to accelerate the sale of the home in order to eliminate the holding costs related to the home.

#### Interest expense

Interest expense decreased \$218,000 (69%) to \$97,000 in fiscal 2016, as compared to \$315,000 in fiscal 2015, primarily due the decrease in average outstanding debt balances as Barnwell repaid \$7,659,000 of long-term debt during fiscal 2015 and an additional \$3,440,000 in fiscal 2016.

#### Gain on sales of assets

In September 2015, Barnwell sold its interests in its principal oil and natural gas properties located in the Dunvegan and Belloy areas of Alberta, Canada. The disposition was recorded in the fourth quarter of fiscal 2015 using preliminary purchase price adjustments. The purchase price was subject to final adjustments in accordance with the terms of the purchase and sale agreement.

As a result of the significant impact the sale of Dunvegan had on the relationship between capitalized costs and proved reserves of the sold property and retained properties, Barnwell did not credit the sales proceeds to the full cost pool, but instead calculated a gain on the sale of Dunvegan of \$6,217,000 which was recognized in the year ended September 30, 2015, in accordance with the guidance in Rule 4-10(c)(6)(i) of Regulation S-X.

Barnwell and the purchaser updated and finalized the purchase price adjustments during fiscal 2016 which resulted in the recognition of an additional gain in the amount of \$472,000 during the year ended September 30, 2016, bringing the total gain on the sale of these properties to \$6,689,000.

Refer to the "Oil and Natural Gas Properties" section below for further information.

Also included in gain on sales of assets for the for the year ended September 30, 2015 is a \$272,000 gain on the sale of a contract drilling rig and ancillary drilling equipment in May 2015.

## Equity in income of affiliates

Barnwell's investment in the Kukio Resort land development partnerships is accounted for using the equity method of accounting. Barnwell was allocated partnership income of \$2,624,000 in fiscal 2016, as compared to \$1,580,000 in fiscal 2015. The increase in the allocated partnership income in the current year is due primarily to the investee partnerships' sale of the first of two large ocean front parcels in Kaupulehu Increment II for \$20,000,000 in April 2016, partially offset by decreases in the number of the lots sold by the partnerships as compared to the prior year.

In April 2016, the Kukio Resort land development partnerships made a cash distribution to its partners of which Barnwell received \$5,320,000, after distributing \$40,000 to minority interests.

## Income taxes

The components of earnings (loss) before income taxes, after adjusting the earnings (loss) for non-controlling interests, are as follows:

|               | Year ended    |             |
|---------------|---------------|-------------|
|               | September 30, |             |
|               | 2016          | 2015        |
| United States | \$(360,000 )  | \$1,011,000 |
| Canada        | (3,977,000 )  | 1,460,000   |
|               | \$(4,337,000) | \$2,471,000 |

Barnwell's effective consolidated income tax rate for fiscal 2016, after adjusting earnings (loss) before income taxes for non-controlling interests, was 17%, as compared to 49% for fiscal 2015.

During fiscal 2015, Barnwell determined that it was not more likely than not that all of our oil and natural gas deferred tax assets under Canadian tax law were realizable due to significant declines in oil and natural gas prices, which in turn restricted funds available for the oil and natural gas capital expenditures needed to replace production and abate declining reserves. As a result the Company recorded a valuation allowance for the portion of Canadian tax law deferred tax assets related to asset retirement obligations that may not be realizable. The change in the valuation allowance related to asset retirement obligations and Canadian branch tax loss carryforwards that may not be realizable included in the deferred income tax provision (benefit) for the years ended September 30, 2016 and 2015, was a charge of \$292,000 and \$1,028,000, respectively.

On June 29, 2015, the Canadian province of Alberta enacted legislation that increased the provincial corporate tax rate from 10% to 12%, effective July 1, 2015, bringing the total Canadian statutory tax rate applicable to our business from 28.75% to 30.65%. The impact of the enactment, which was not significant, was recorded as a charge to income taxes during the year ended September 30, 2015.

Consolidated taxes do not bear a customary relationship to pretax results due primarily to the fact that the Company is taxed separately in Canada based on Canadian source operations and in the U.S. based on consolidated operations, Canadian income taxes are not estimated to have a future benefit as foreign tax credits or deductions for U.S. tax purposes, and U.S. consolidated net operating losses and other deferred tax assets under U.S. tax law are not estimated to have any future U.S. tax benefit. In addition, consolidated taxes include the aforementioned valuation allowance for a portion of deferred tax assets under Canadian tax law.



#### Net earnings attributable to non-controlling interests

Earnings attributable to non-controlling interests represent the non-controlling interests' share of revenues and expenses related to the various partnerships and joint ventures in which Barnwell has interests.

Net earnings attributable to non-controlling interests totaled \$751,000 in fiscal 2016, as compared to \$506,000 in fiscal 2015. The \$245,000 (48%) change is due to an increase in the amount of Kukio Resort land development partnership income allocated to non-controlling interests and an increase in residential real estate segment income, of which the non-controlling interests are attributed 20%, in the current year as compared to the prior year. These increases were partially offset by a decrease in percentage of sales proceeds received in the current year as compared to the prior year.

#### Inflation

The effect of inflation on Barnwell has generally been to increase its cost of operations, interest cost, general and administrative costs and direct costs associated with oil and natural gas production and contract drilling operations. Oil and natural gas prices realized by Barnwell are essentially determined by world prices for oil and western Canadian/Midwestern U.S. prices for natural gas.

#### Impact of Recently Issued Accounting Standards on Future Filings

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. During fiscal 2016, the FASB issued additional ASUs related to this revenue guidance. In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations," which is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, "Identifying Performance Obligations and Licensing," which clarifies the implementation guidance on identifying performance obligations and licenses in customer contracts. In May 2016, the FASB issued ASU No. 2016-12, "Narrow-Scope Improvements and Practical Expedients," which addresses completed contracts and contract modifications at transition, noncash consideration, the presentation of sales taxes and other taxes collected from customers, and assessment of collectibility when determining whether a transaction represents a valid contract. ASU No. 2014-09 and all of the related ASUs have the same effective date. On July 9, 2015, the FASB deferred the effective date of ASU No. 2014-09 for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted as of the original effective date, which is annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. The new standard is to be applied retrospectively and permits the use of either the retrospective or cumulative effect transition method. Barnwell is currently evaluating the effect that the adoption of this update will have on the consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which requires an entity to evaluate at each reporting period whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year from the date the financial statements are issued and to provide related footnote disclosures in certain circumstances. The amendment is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. Early application is



permitted. Barnwell is currently evaluating the effect that the adoption of this update will have on the consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items," which eliminates the concept of an extraordinary item from GAAP. As a result, an entity will no longer be required to separately classify, present and disclose extraordinary events and transactions. The amendment is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual periods. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis," which simplifies the current consolidation guidance and will require companies to reevaluate limited partnerships and similar entities for consolidation. The amendment is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual periods. Barnwell is currently evaluating the effect that the adoption of this update will have on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This amendment was issued to simplify the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability. This will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The amendment is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual periods, with early adoption permitted. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In July 2015, the FASB issued ASU 2015-12, "Plan Accounting: (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient." The ASU aims to simplify the accounting and presentation of plan accounting. Part I of this ASU requires fully benefit-responsive investment contracts to be measured at contract value instead of the current fair value measurement. Part II simplifies the investment disclosure requirements for employee benefits plans. Part III provides an alternative measurement date for fiscal periods that do not coincide with a month-end date. The amendment is effective for annual reporting periods beginning after December 15, 2015. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments." The ASU eliminates the requirement to account for business combination measurement period adjustments retrospectively. Measurement period adjustments will now be recognized prospectively in the reporting period in which the adjustment amount is determined. The nature and amount of any measurement period adjustments recognized during the reporting period must be disclosed, including the value of the adjustment to each current period income statement line item relating to the income effects that would have been recognized in previous periods if the adjustment to provisional amounts were recognized as of the acquisition date. The amendment is effective for periods beginning after December 15, 2015, and interim periods within those annual periods, and early adoption is permitted. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The amendment is effective for annual reporting periods

beginning after December 15, 2018 and interim periods within those annual periods. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases," which seeks to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. In general, a right-of-use asset and lease obligation will be recorded for leases exceeding a twelve-month term whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption must be calculated using the applicable incremental borrowing rate at the date of adoption. This ASU is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, and requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. Barnwell is currently evaluating the effect that the adoption of this update will have on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, "Simplifying the Transition to the Equity Method of Accounting," which eliminates the requirement that when an investment subsequently qualifies for use of the equity method as a result of an increase in level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. This ASU requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and to adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. In addition, the ASU requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. This ASU is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods, with early adoption permitted. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. This ASU is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which addresses the classification of certain specific cash flow issues including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of certain insurance claims and distributions received from equity method investees. The guidance is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory," which provides guidance on recognition of current income tax consequences for intra-entity asset transfers (other than inventory) at the time of transfer. This represents a change from current GAAP, where the consolidated tax consequences of intra-entity asset transfers are deferred until the transferred asset is sold

to a third party or otherwise recovered through use. The guidance is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption at the beginning of an annual period is permitted. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, "Interests Held through Related Parties That Are under Common Control," which modifies existing guidance with respect to how a decision maker that holds an indirect interest in a VIE through a common control party determines whether it is the primary beneficiary of the VIE as part of the analysis of whether the VIE would need to be consolidated. Under this ASU, a decision maker would need to consider only its proportionate indirect interest in the VIE held through a common control party. This ASU is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

### Liquidity and Capital Resources

Barnwell's primary sources of liquidity are cash on hand and land investment segment proceeds. At September 30, 2016, Barnwell had \$16,378,000 in working capital which included \$15,550,000 in cash and cash equivalents.

### Cash Flows

Cash flows provided by operations totaled \$1,770,000 for fiscal 2016, as compared to cash flows used in operations of \$7,132,000 for the same period in fiscal 2015. This \$8,902,000 increase was primarily due to a distribution of income received from the Kukio Resort land development partnerships in the amount of \$3,714,000 in the current year and net proceeds of \$5,132,000 received from the sale of the real estate held for sale in April 2016, whereas there were no such items in the prior year.

Net cash provided by investing activities totaled \$9,378,000 for fiscal 2016, as compared to \$9,077,000 for fiscal 2015. The \$301,000 increase in investing cash flows was primarily due a distribution of capital received from the Kukio Resort land development partnerships in the amount of \$1,646,000 in fiscal 2016, a \$714,000 decrease in capital expenditures in the current year as compared to the prior year and a \$720,000 net increase in proceeds received from the sale of interests in the Dunvegan and Belloy area properties and the related restricted cash activity in the current year as compared to prior year. Partially offsetting these increases was a \$1,329,000 decrease in percentage of sales proceeds received in the current year as compared to the prior year and a \$1,513,000 decrease in cash flows related to the proceeds received from the sale of a residential parcel and the sale of contract drilling assets in the prior year.

Cash flows used in financing activities totaled \$4,252,000 for fiscal 2016, as compared to \$8,709,000 for fiscal 2015. The \$4,457,000 decrease in cash used was primarily due to a \$4,219,000 decrease in net debt repayments in the current year as compared to prior year.

### Credit Arrangements

In April 2016, Barnwell's revolving credit facility at Royal Bank of Canada was terminated. The termination was due to Barnwell's significant reduction in reserves as a result of the sale of its interests in oil and natural gas properties in the Dunvegan and Belloy areas in September 2015 as well as a tightening credit market for oil and natural gas companies due to current low oil and natural gas prices and reductions in Royal Bank of Canada's forecast of oil and natural gas prices which decreased its valuation of the Company's



remaining oil and natural gas assets pledged as security. Borrowings under this facility were \$0 at September 30, 2015.

In June 2016, Barnwell entered into a new agreement with Royal Bank of Canada for a revolving demand facility in the amount of \$500,000 Canadian dollars, or U.S. \$381,000 at the September 30, 2016 exchange rate. Borrowings under this facility were \$0 and issued letters of credit were \$34,000 at September 30, 2016. The obligations under the credit facility are secured by a \$500,000 Canadian dollar, or U.S. \$381,000 at the September 30, 2016 exchange rate, guaranteed investment certificate pledged to the Royal Bank of Canada.

Barnwell, together with its real estate joint venture, Kaupulehu 2007, had a non-revolving real estate loan with a Hawaii bank. At September 30, 2015, the balance of the real estate loan was \$3,440,000. In April 2016, the home collateralizing the loan was sold and in accordance with the terms of the loan agreement a portion of the proceeds from the sale was used to repay the real estate loan in full.

#### Oil and Natural Gas Capital Expenditures

Barnwell's oil and natural gas capital expenditures, including accrued capital expenditures and acquisitions of oil and natural gas properties and excluding additions and revisions to estimated asset retirement obligations, decreased \$505,000 from \$2,278,000 in fiscal 2015 to \$1,773,000 in fiscal 2016. Of the \$1,773,000 of total oil and natural gas properties investments for fiscal 2016, \$769,000 (43%) was for the acquisition of additional working interests in oil and natural gas properties and \$1,004,000 (57%) was for well improvements.

Barnwell estimates that investments in oil and natural gas properties for fiscal 2017 will range from \$2,000,000 to \$4,500,000. This estimated amount may increase or decrease as dictated by cash flows and management's assessment of the oil and natural gas environment and prospects.

#### Oil and Natural Gas Properties

##### 2016 Acquisition

On September 12, 2016, Barnwell completed the acquisition of additional working interests in oil and natural gas properties located in the Wood River area of Alberta, Canada for cash consideration of \$769,000.

##### 2015 Acquisitions

On November 13, 2014, Barnwell completed the acquisition of additional working interests in oil and natural gas properties located in the Progress area of Alberta, Canada for cash consideration of \$526,000.

On August 27, 2015, Barnwell completed the acquisition of additional working interests in oil and natural gas properties located in the Progress area of Alberta, Canada for cash consideration of \$306,000.

##### 2015 Disposition

Barnwell entered into a purchase and sale agreement with an independent third party and, in September 2015, sold its interests in its principal oil and natural gas properties located in the Dunvegan and Belloy areas of Alberta, Canada. The sales price per the agreement was adjusted for preliminary purchase price adjustments

to approximately \$21,875,000 in order to, among other things, reflect an economic effective date of April 1, 2015. Barnwell's share, after broker's fees and other closing costs, was approximately \$14,162,000 and third parties', who were working interest owners in the properties prior to the sale, share, in the aggregate, was approximately \$7,247,000.

The relationship between capitalized costs and proved reserves of the sold property and retained properties was significant as there was a 220% difference in capitalized costs divided by proved reserves if the gain was recorded versus the gain being credited against the full-cost pool. Accordingly, Barnwell recorded a gain on the sale of Dunvegan of \$6,217,000 in the year ended September 30, 2015 in accordance with the guidance in Rule 4-10(c)(6)(i) of Regulation S-X, which requires an allocation of capitalized costs to the reserves sold and reserves retained on the basis of the relative fair values of the properties as there was a substantial economic difference between the properties sold and those retained. Also included in the gain calculation, were asset retirement obligations of \$2,013,000 assumed by the purchaser.

The disposition was recorded in fiscal 2015 using preliminary purchase price adjustments. Barnwell and the purchaser updated and finalized the purchase price adjustments in accordance with the terms of the purchase and sale agreement during fiscal 2016 which resulted in additional proceeds of \$493,000 and the recognition of an additional gain in the amount of \$472,000 during the year ended September 30, 2016, bringing the total gain on the sale of these properties to \$6,689,000.

The sale of Dunvegan resulted in a 60% decrease in our proved natural gas reserves and a 34% decrease in our proved oil and natural gas liquids reserves. In fiscal 2015, Dunvegan accounted for 74% of our net natural gas production and 44% of our net oil and natural gas liquids production, and contributed 46% of our total oil and natural gas revenues.

#### Asset Retirement Obligation

In July 2014, the Alberta Energy Regulator introduced an Inactive Well Compliance Program which resulted in the acceleration of expenditures to suspend and/or abandon long-term inactive wells. Under the program all inactive wells that were noncompliant as of April 1, 2015 need to be brought into compliance by the operator within five years, in increments of not less than 20 percent per year. The impact of this program was incorporated into Barnwell's estimate of its asset retirement obligations beginning in fiscal 2014. At September 30, 2016, the current portion of the asset retirement obligation was \$1,017,000.

#### Other Considerations

Due to the negative impacts of 1) declines in oil and natural gas prices; 2) declines in oil and natural gas production due to both oil and natural gas property sales and the natural decline oil and natural gas wells experience as they age; 3) increasing costs due to both inflation and the age of Barnwell's properties and other factors, Barnwell's existing oil and natural gas assets are projected to have minimal cash flow from operations. As a result, the Company's current cash on hand will likely not be sufficient to fund both the significant reinvestments that are necessary to sustain our oil and natural gas business in the future and our asset retirement obligations, retirement plan funding, and ongoing operating and general and administrative expenses. Therefore, it is likely that Barnwell will be increasingly reliant upon future land investment segment proceeds from percentage of sales payments, if any, and future cash distributions, if any, from the Kukio Resort land development partnerships, the timing of which are both highly uncertain and not within Barnwell's control, to fund operations and provide capital for reinvestment. If the Company is unable to make sufficient and successful reinvestments, or if unforeseen circumstances arise that impair our ability to sustain or grow the Company, we may be forced to wind down our operations, either through liquidation, bankruptcy or





further sales of our assets, and/or we may not be able to continue as a going concern in the longer term beyond one year.

#### Contractual Obligations

Disclosure is not required as Barnwell qualifies as a smaller reporting company.

#### Contingencies

#### Environmental

In January 2015, there was an oil and saltwater release from one of our operated oil pipelines in Alberta, Canada. The gross environmental remediation costs were approximately \$2,200,000. Barnwell's working interest in the well is 58%, and we have recovered all of the monies from the other working interest owners for their share of the costs. We have collected insurance proceeds, less an \$80,000 deductible, for our share of the costs. There was no remaining liability at September 30, 2016.

In February 2016, a gas migration was detected at one of our previously abandoned non-operated wells in Alberta, Canada. We have estimated that probable environmental remediation costs will be within the range of \$400,000 to \$800,000. Barnwell's working interest in the well is 50%, and accordingly we accrued approximately \$200,000 at September 30, 2016, however as non-operator we have no control over the actual cost or timing of the eventual remediation.

Because of the inherent uncertainties associated with environmental assessment and remediation activities, future expenses to remediate the currently identified sites, and sites identified in the future, if any, could be incurred.

#### Guarantee

See Note 9 in the "Notes to Consolidated Financial Statements" in Item 8 for a discussion of Barnwell's guarantee of the Kukio Resort land development partnership's performance bonds.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosure is not required as Barnwell qualifies as a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors  
Barnwell Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Barnwell Industries, Inc. and subsidiaries as of September 30, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, cash flows, and equity for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barnwell Industries, Inc. and subsidiaries as of September 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Honolulu, Hawaii  
December 20, 2016

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

|   | September 30, |              |
|---|---------------|--------------|
|   | 2016          | 2015         |
| <b>ASSETS</b>   |               |              |
| Current assets:   |               |              |
| Cash and cash equivalents   | \$15,550,000  | \$8,471,000  |
| Restricted cash   | 381,000       | 7,458,000    |
| Accounts and other receivables, net of allowance for doubtful accounts  | 1,228,000     | 2,300,000    |
| Asset held for sale   | 1,829,000     | —            |
| Investment held for sale  | 1,192,000     | 1,192,000    |
| Real estate held for sale   | —             | 5,132,000    |
| Other current assets  | 934,000       | 1,125,000    |
| Total current assets  | 21,114,000    | 25,678,000   |
| Restricted cash, net of current portion   | —             | 119,000      |
| Investments   | 3,552,000     | 6,288,000    |
| Property and equipment, net   | 6,902,000     | 9,468,000    |
| Total assets  | \$31,568,000  | \$41,553,000 |
| <b>LIABILITIES AND EQUITY</b>   |               |              |
| Current liabilities:  |               |              |
| Accounts payable  | \$1,423,000   | \$2,653,000  |
| Accrued capital expenditures  | 439,000       | 363,000      |
| Accrued compensation  | 449,000       | 560,000      |
| Accrued operating and other expenses  | 1,031,000     | 1,343,000    |
| Current portion of long-term debt   | —             | 3,440,000    |
| Current portion of asset retirement obligation  | 1,017,000     | 506,000      |
| Other current liabilities   | 377,000       | 1,138,000    |
| Total current liabilities   | 4,736,000     | 10,003,000   |
| Liability for retirement benefits   | 6,707,000     | 5,409,000    |
| Asset retirement obligation   | 6,177,000     | 6,430,000    |
| Deferred income taxes   | 204,000       | 449,000      |
| Total liabilities   | 17,824,000    | 22,291,000   |
| Commitments and contingencies (Note 18)   |               |              |
| Equity:   |               |              |
| Common stock, par value \$0.50 per share; authorized, 20,000,000 shares:<br>8,445,060 issued at September 30, 2016 and 2015 | 4,223,000     | 4,223,000    |
| Additional paid-in capital  | 1,345,000     | 1,335,000    |
| Retained earnings   | 13,852,000    | 17,467,000   |
| Accumulated other comprehensive loss, net   | (3,920,000)   | (2,122,000)  |
| Treasury stock, at cost:<br>167,900 shares at September 30, 2016 and 2015   | (2,286,000)   | (2,286,000)  |
| Total stockholders' equity  | 13,214,000    | 18,617,000   |
| Non-controlling interests   | 530,000       | 645,000      |
| Total equity  | 13,744,000    | 19,262,000   |
| Total liabilities and equity  | \$31,568,000  | \$41,553,000 |
| See Notes to Consolidated Financial Statements  |               |              |

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Year ended September 30, |             |
|---|--------------------------|-------------|
|   | 2016                     | 2015        |
| Revenues:   |                          |             |
| Oil and natural gas   | \$3,177,000              | \$9,008,000 |
| Contract drilling   | 2,233,000                | 4,886,000   |
| Sale of interest in leasehold land, net   | 1,915,000                | 3,244,000   |
| Residential real estate   | 5,700,000                | —           |
| Gas processing and other  | 262,000                  | 395,000     |
|   | 13,287,000               | 17,533,000  |
| Costs and expenses:   |                          |             |
| Oil and natural gas operating   | 3,142,000                | 6,387,000   |
| Contract drilling operating   | 2,098,000                | 3,692,000   |
| Residential real estate   | 5,510,000                | —           |
| General and administrative  | 6,361,000                | 8,551,000   |
| Depletion, depreciation, and amortization   | 1,607,000                | 3,364,000   |
| Impairment of assets  | 1,154,000                | 316,000     |
| Interest expense  | 97,000                   | 315,000     |
| Gain on sales of assets   | (472,000)                | (6,489,000) |
|   | 19,497,000               | 16,136,000  |
| (Loss) earnings before equity in income of affiliates and income taxes                              | (6,210,000)              | 1,397,000   |
| Equity in income of affiliates  | 2,624,000                | 1,580,000   |
| (Loss) earnings before income taxes   | (3,586,000)              | 2,977,000   |
| Income tax (benefit) provision  | (722,000)                | 1,208,000   |
| Net (loss) earnings   | (2,864,000)              | 1,769,000   |
| Less: Net earnings attributable to non-controlling interests  | 751,000                  | 506,000     |
| Net (loss) earnings attributable to Barnwell Industries, Inc. stockholders                          | \$(3,615,000)            | \$1,263,000 |
| Basic net (loss) earnings per common share attributable to Barnwell Industries, Inc. stockholders   | \$(0.44)                 | \$0.15      |
| Diluted net (loss) earnings per common share attributable to Barnwell Industries, Inc. stockholders | \$(0.44)                 | \$0.15      |
| Weighted-average number of common shares outstanding:   |                          |             |
| Basic   | 8,277,160                | 8,277,160   |
| Diluted   | 8,277,160                | 8,277,160   |
| See Notes to Consolidated Financial Statements  |                          |             |

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

|  | Year ended September 30, |              |
|--|--------------------------|--------------|
|  | 2016                     | 2015         |
| Net (loss) earnings  | \$(2,864,000)            | \$1,769,000  |
| Other comprehensive income (loss):   |                          |              |
| Foreign currency translation adjustments, net of taxes of \$0  | 87,000                   | (873,000 )   |
| Retirement plans:  |                          |              |
| Amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0 | 168,000                  | 105,000      |
| Net actuarial losses arising during the period, net of taxes of \$0                                      | (2,053,000 )             | (1,096,000 ) |
| Total other comprehensive loss   | (1,798,000 )             | (1,864,000 ) |
| Total comprehensive loss   | (4,662,000 )             | (95,000 )    |
| Less: Comprehensive income attributable to non-controlling interests                                     | 751,000                  | 506,000      |
| Comprehensive loss attributable to Barnwell Industries, Inc.   | \$(5,413,000)            | \$(601,000 ) |
| See Notes to Consolidated Financial Statements   |                          |              |

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Year ended September 30, |              |
|--|--------------------------|--------------|
|  | 2016                     | 2015         |
| Cash flows from operating activities:  |                          |              |
| Net (loss) earnings  | \$(2,864,000 )           | \$1,769,000  |
| Adjustments to reconcile net (loss) earnings to net cash provided by (used in) operating activities: |                          |              |
| Equity in income of affiliates   | (2,624,000 )             | (1,580,000 ) |
| Depletion, depreciation, and amortization  | 1,607,000                | 3,364,000    |
| Impairment of assets   | 1,154,000                | 316,000      |
| Gain on sale of oil and natural gas properties   | (472,000 )               | (6,217,000 ) |
| Gain on sale of contract drilling assets   | —                        | (272,000 )   |
| Foreign exchange loss  | —                        | 752,000      |
| Distribution of income from equity investees   | 3,714,000                | —            |
| Imputed interest income on note receivable   | —                        | (22,000 )    |
| Retirement benefits expense  | 519,000                  | 408,000      |
| Accretion of asset retirement obligation   | 464,000                  | 632,000      |
| Deferred income tax benefit  | (71,000 )                | (415,000 )   |
| Asset retirement obligation payments   | (459,000 )               | (655,000 )   |
| Share-based compensation benefit   | (22,000 )                | (140,000 )   |
| Retirement plan contributions  | (1,106,000 )             | (256,000 )   |
| Real estate held for sale  | 5,132,000                | —            |
| Sale of interest in leasehold land, net  | (1,915,000 )             | (3,244,000 ) |
| Decrease from changes in current assets and liabilities  | (1,287,000 )             | (1,572,000 ) |
| Net cash provided by (used in) operating activities  | 1,770,000                | (7,132,000 ) |
| Cash flows from investing activities:  |                          |              |
| Decrease (increase) in restricted cash   | 7,089,000                | (7,300,000 ) |
| Distribution from equity investees in excess of earnings   | 1,646,000                | —            |
| Proceeds from sale of interest in leasehold land, net of fees paid                                   | 1,915,000                | 3,244,000    |
| Proceeds from sale of oil and natural gas assets   | 493,000                  | 14,162,000   |
| Proceeds from sale of contract drilling assets   | —                        | 368,000      |
| Proceeds from sale of investments  | —                        | 1,145,000    |
| Payment to acquire oil and natural gas properties  | (769,000 )               | (832,000 )   |
| Capital expenditures   | (996,000 )               | (1,710,000 ) |
| Net cash provided by investing activities  | 9,378,000                | 9,077,000    |
| Cash flows from financing activities:  |                          |              |
| Repayments of long-term debt   | (3,440,000 )             | (7,659,000 ) |
| Decrease (increase) in restricted cash   | 54,000                   | (442,000 )   |
| Contributions from non-controlling interests   | —                        | 120,000      |
| Distributions to non-controlling interests   | (866,000 )               | (728,000 )   |
| Net cash used in financing activities  | (4,252,000 )             | (8,709,000 ) |
| Effect of exchange rate changes on cash and cash equivalents   | 183,000                  | (869,000 )   |
| Net increase (decrease) in cash and cash equivalents   | 7,079,000                | (7,633,000 ) |
| Cash and cash equivalents at beginning of year   | 8,471,000                | 16,104,000   |
| Cash and cash equivalents at end of year   | \$15,550,000             | \$8,471,000  |
| See Notes to Consolidated Financial Statements   |                          |              |





BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EQUITY

Years ended September 30, 2015 and 2016

|   | Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury<br>Stock | Non-controlling<br>Interests | Total<br>Equity |
|---|-----------------------|-----------------|----------------------------------|----------------------|--|-------------------|------------------------------|-----------------|
| Balance at<br>September 30,<br>2014   | 8,277,160             | \$4,223,000     | \$1,315,000                      | \$16,204,000         | \$(258,000 )   | \$(2,286,000)     | \$747,000                    | \$19,945,000    |
| Contributions<br>from<br>non-controlling<br>interests   |                       |                 |                                  |                      |  |                   | 120,000                      | 120,000         |
| Distributions to<br>non-controlling<br>interests  |                       |                 |                                  |                      |  |                   | (728,000 )                   | (728,000 )      |
| Net earnings  |                       |                 |                                  | 1,263,000            |  |                   | 506,000                      | 1,769,000       |
| Share-based<br>compensation   |                       |                 | 20,000                           |                      |  |                   |                              | 20,000          |
| Foreign<br>currency<br>translation<br>adjustments, net<br>of taxes of \$0   |                       |                 |                                  |                      | (873,000 )   |                   |                              | (873,000 )      |
| Retirement<br>plans:<br>Amortization of<br>accumulated<br>other<br>comprehensive<br>loss into net<br>periodic benefit<br>cost, net of<br>taxes of \$0 |                       |                 |                                  |                      | 105,000  |                   |                              | 105,000         |
| Net actuarial<br>losses arising<br>during the<br>period, net of<br>taxes of \$0   |                       |                 |                                  |                      | (1,096,000 )   |                   |                              | (1,096,000 )    |
| Balance at<br>September 30,<br>2015   | 8,277,160             | 4,223,000       | 1,335,000                        | 17,467,000           | (2,122,000 )   | (2,286,000 )      | 645,000                      | 19,262,000      |
| Distributions to<br>non-controlling<br>interests  |                       |                 |                                  |                      |  |                   | (866,000 )                   | (866,000 )      |
| Net (loss)<br>earnings  |                       |                 |                                  | (3,615,000 )         |  |                   | 751,000                      | (2,864,000 )    |
| Share-based<br>compensation   |                       |                 | 10,000                           |                      |  |                   |                              | 10,000          |

|   |           |             |             |              |               |               |           |  |              |
|---|-----------|-------------|-------------|--------------|---------------|---------------|-----------|--|--------------|
| Foreign<br>currency<br>translation<br>adjustments, net<br>of taxes of \$0   |           |             |             |              | 87,000        |               |           |  | 87,000       |
| Retirement<br>plans:<br>Amortization of<br>accumulated<br>other<br>comprehensive<br>loss into net<br>periodic benefit<br>cost, net of<br>taxes of \$0 |           |             |             |              | 168,000       |               |           |  | 168,000      |
| Net actuarial<br>losses arising<br>during the<br>period, net of<br>taxes of \$0   |           |             |             |              | (2,053,000 )  |               |           |  | (2,053,000 ) |
| Balance at<br>September 30,<br>2016   | 8,277,160 | \$4,223,000 | \$1,345,000 | \$13,852,000 | \$(3,920,000) | \$(2,286,000) | \$530,000 |  | \$13,744,000 |

See Notes to Consolidated Financial Statements

BARNWELL INDUSTRIES, INC.

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Barnwell is engaged in the following lines of business: 1) acquiring, developing, producing and selling oil and natural gas in Canada, 2) investing in land interests in Hawaii, 3) drilling wells and installing and repairing water pumping systems in Hawaii, and 4) developing homes for sale in Hawaii.

Principles of Consolidation

The consolidated financial statements include the accounts of Barnwell Industries, Inc. and all majority-owned subsidiaries (collectively referred to herein as “Barnwell,” “we,” “our,” “us,” or the “Company”), including a 77.6%-owned land investment general partnership (Kaupulehu Developments), a 75%-owned land investment partnership (KD Kona 2013 LLLP) and two 80%-owned joint ventures (Kaupulehu 2007, LLLP and Kaupulehu Investors, LLC). All significant intercompany accounts and transactions have been eliminated.

Barnwell’s investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in VIEs in which the Company is not deemed to be the primary beneficiary are accounted for by the equity method.

Use of Estimates in the Preparation of Financial Statements

The preparation of the financial statements in conformity with U.S. GAAP requires management of Barnwell to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ significantly from those estimates. Significant assumptions are required in the valuation of deferred tax assets, asset retirement obligations, share-based payment arrangements, obligations for retirement plans, contract drilling estimated costs to complete, proved oil and natural gas reserves, and the carrying value of other assets, and such assumptions may impact the amount at which such items are recorded.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less.

Restricted Cash

Restricted cash at September 30, 2016 consists of a \$500,000 Canadian dollar, or U.S. \$381,000 at the September 30, 2016 exchange rate, guaranteed investment certificate pledged to the Royal Bank of Canada as required by our revolving demand facility.

Restricted cash in the prior year consisted of a portion of the proceeds from the sale of Dunvegan held in an escrow account for the Canada Revenue Agency for potential amounts due for Barnwell's Canadian

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income taxes as well as deposits in an interest reserve account and a cost reserve account for our real estate loan. These amounts were released from restriction in fiscal 2016.

#### Concentration of Credit Risk

We maintain bank account balances with high quality financial institutions which often exceed insured limits. We have not experienced any losses with these accounts and believe that we are not exposed to any significant credit risk on cash.

#### Accounts and Other Receivables

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is Barnwell's best estimate of the amount of probable credit losses in Barnwell's existing accounts receivable and is based on historical write-off experience and the application of the specific identification method. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Barnwell does not have any off-balance sheet credit exposure related to its customers.

#### Asset and Investment Held for Sale

Asset and investment held for sale are reported at the lower of the asset carrying value or fair value less costs to sell. The recorded balances are evaluated for impairment whenever events or changes in circumstances indicate that the balance may not be fully recoverable. This evaluation requires management to make assumptions and apply considerable judgments to, among others, estimates of the timing and amount of future cash flows, uncertainty about future events, including changes in economic conditions, changes in operating performance, and ongoing cost of maintenance and improvements of the assets. Changes in these and other assumptions may require impairment charges that may materially impact the Company's future operating results.

Assets are classified as held for sale if management commits to a plan to sell the property, the Company actively markets the property in its current condition for a price that is reasonable in comparison to its fair value and management considers the sale of such property within one year of the balance sheet date to be probable.

#### Investments in Real Estate

Barnwell accounts for sales of Increment I and Increment II leasehold land interests under the full accrual method. Gains from such sales were recognized when the buyer's investments were adequate to demonstrate a commitment to pay for the property, risks and rewards of ownership transferred to the buyer, and Barnwell did not have a substantial continuing involvement with the property sold. With regard to the sales of Increment I and Increment II leasehold land interests, the percentage of sales payments are contingent future profits which will be recognized when they are realized. All costs of the sales of Increment I and Increment II leasehold land interests were recognized at the time of sale and were not deferred to future periods when any contingent profits will be recognized.

## Equity Method Investments

Affiliated companies, which are limited partnerships or similar entities, in which Barnwell holds more than a 3% to 5% ownership interest, are accounted for as equity method investments. Equity method investment adjustments include Barnwell's proportionate share of investee income or loss, adjustments to recognize certain differences between Barnwell's carrying value and Barnwell's equity in net assets of the investee at the date of investment, impairments and other adjustments required by the equity method. Gains or losses are realized when such investments are sold.

Investments in equity method investees are evaluated for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amounts of the assets exceed their respective fair values, additional impairment tests are performed to measure the amounts of the impairment losses, if any. When an impairment test demonstrates that the fair value of an investment is less than its carrying value, management will determine whether the impairment is either temporary or other-than-temporary. Examples of factors which may be indicative of an other-than-temporary impairment include (a) the length of time and extent to which fair value has been less than carrying value, (b) the financial condition and near-term prospects of the investee, and (c) the intent and ability to retain the investment in the investee for a period of time sufficient to allow for any anticipated recovery in fair value. If the decline in fair value is determined by management to be other-than-temporary, the carrying value of the investment is written down to its estimated fair value as of the balance sheet date of the reporting period in which the assessment is made.

## Variable Interest Entities

The consolidation of VIEs is required when an enterprise has a controlling financial interest and is therefore the VIE's primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The determination of whether an entity is a VIE and, if so, whether the Company is primary beneficiary, may require significant judgment.

Barnwell analyzes its unconsolidated affiliates in which it has an investment to determine whether the unconsolidated entities are VIEs and, if so, whether the Company is the primary beneficiary. This analysis includes a qualitative review based on an evaluation of the design of the entity, its organizational structure, including decision making ability and financial agreements, as well as a quantitative review. Our unconsolidated affiliates that have been determined to be VIEs are accounted under the equity method because we do not have a controlling financial interest and are therefore not the VIE's primary beneficiary (see Note 9).

## Oil and Natural Gas Properties

Barnwell uses the full cost method of accounting under which all costs incurred in the acquisition, exploration and development of oil and natural gas reserves, including costs related to unsuccessful wells and estimated future site restoration and abandonment, are capitalized. We capitalize internal costs that can be directly identified with our acquisition, exploration and development activities and do not include any costs related to production, general corporate overhead or similar activities.

Under the full cost method of accounting, we review the carrying value of our oil and natural gas properties, on a country-by-country basis, each quarter in what is commonly referred to as the ceiling test. Under the ceiling test, capitalized costs, net of accumulated depletion and oil and natural gas related deferred income taxes, may not exceed an amount equal to the sum of 1) the discounted present value (at 10%), using average first-day-of-the-month prices during the 12-month period ending as of the balance sheet date held constant over the life of the reserves, of Barnwell's estimated future net cash flows from estimated production of proved oil and natural gas reserves as determined by independent petroleum reserve engineers, less estimated future expenditures to be incurred in developing and producing the proved reserves but excluding future cash outflows associated with settling asset retirement obligations; plus 2) the cost of major development projects and unproven properties not subject to depletion, if any; plus 3) the lower of cost or estimated fair value of unproven properties included in costs subject to depletion; less 4) related income tax effects. If net capitalized costs exceed this limit, the excess is expensed. Depletion is computed using the units-of-production method whereby capitalized costs, net of estimated salvage values, plus estimated future costs to develop proved reserves and satisfy asset retirement obligations, are amortized over the total estimated proved reserves on a country-by-country basis. Investments in major development projects are not depleted until either proved reserves are associated with the projects or impairment has been determined. Proceeds from the disposition of oil and natural gas properties are credited to the full cost pool, with no gain or loss recognized, unless such a sale would significantly alter the relationship between capitalized costs and the proved reserves in a particular country.

Revenues associated with the sale of oil, natural gas and natural gas liquids are recognized in the Consolidated Statements of Operations when the oil, natural gas and natural gas liquids are delivered and title has passed to the customer.

Barnwell's sales reflect its working interest share after royalties. Barnwell's production is generally delivered and sold at the plant gate. Barnwell does not have transportation volume commitments with pipelines and does not have natural gas imbalances related to natural gas balancing arrangements with its partners.

#### Acquisitions

Acquisitions of businesses are accounted for using the acquisition method of accounting. Purchase prices are allocated to acquired assets and assumed liabilities based on their estimated fair value at the time of the acquisition. A business combination may result in the recognition of a gain or goodwill based on the fair value of the assets acquired and liabilities assumed at the acquisition date as compared to the fair value of consideration transferred.

#### Long-lived Assets

Long-lived assets to be held and used, other than oil and natural gas properties, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability is measured by comparing the carrying amount of the asset to the future net cash flows expected to result from use of the asset (undiscounted and without interest charges). If it is determined that the asset may not be recoverable, impairment loss is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of the asset carrying value or fair value, less cost to sell.

Water well drilling rigs, office and other property and equipment are depreciated using the straight-line method based on estimated useful lives.

### Share-based Compensation

Share-based compensation cost is measured at fair value. Barnwell utilizes a closed-form valuation model to determine the fair value of each option award. Expected volatilities are based on the historical volatility of Barnwell's stock over a period consistent with that of the expected terms of the options. The expected terms of the options represent expectations of future employee exercise and are estimated based on factors such as vesting periods, contractual expiration dates, historical trends in Barnwell's stock price, and historical exercise behavior. The risk-free rates for periods within the contractual life of the options are based on the yields of U.S. Treasury instruments with terms comparable to the estimated option terms. Expected dividends are based on current and historical dividend payments.

### Retirement Plans

Barnwell accounts for its defined benefit pension plan, Supplemental Employee Retirement Plan, and postretirement medical insurance benefits plan by recognizing the over-funded or under-funded status as an asset or liability in its Consolidated Balance Sheets and recognizes changes in that funded status in the year in which the changes occur through comprehensive income. See further discussion at Note 13.

The estimation of Barnwell's retirement plan obligations, costs and liabilities requires management to estimate the amount and timing of cash outflows for projected future payments and cash inflows for maturities and expected returns on plan assets. These assumptions may have an effect on the amount and timing of future contributions.

At the end of each year, Barnwell determines the discount rate to be used to calculate the present value of plan liabilities and the net periodic benefit cost. The discount rate is an estimate of the current interest rate at which the retirement plan liabilities could be effectively settled at the end of the year. In estimating this rate, Barnwell references the Citigroup Pension Liability Index at our balance sheet date which is linked to rates of return on high-quality, fixed-income investments. The discount rate used to value the future benefit obligation as of each year-end is the rate used to determine the periodic benefit cost in the following year.

The expected long-term return on assets assumption for the pension plans represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. The actual fair value of plan assets and estimated rate of return is used to determine the expected investment return during the year. The estimated rate of return on plan assets is based on historical trends combined with long-term expectations, the mix of plan assets and long-term inflation assumptions. A decrease (increase) of 50 basis points in the expected return on assets assumption would increase (decrease) pension expense by approximately \$43,000 based on the assets of the plan at September 30, 2016.

The effects of changing assumptions are included in unamortized net gains and losses, which directly affect accumulated other comprehensive income. These unamortized gains and losses in excess of certain thresholds are amortized and reclassified to income (loss) over the average remaining service life of active employees.

### Asset Retirement Obligation

Barnwell accounts for asset retirement obligations by recognizing the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. Barnwell estimates the fair value of asset retirement obligations based on the projected discounted future cash outflows required to settle abandonment and restoration liabilities. Such an estimate requires





assumptions and judgments regarding the existence of liabilities, the amount and timing of cash outflows required to settle the liability, what constitutes adequate restoration, inflation factors, credit adjusted discount rates, and consideration of changes in legal, regulatory, environmental and political environments. Abandonment and restoration cost estimates are determined in conjunction with Barnwell's reserve engineers based on historical information regarding costs incurred to abandon and restore similar well sites, information regarding current market conditions and costs, and knowledge of subject well sites and properties. These assumptions represent Level 3 inputs.

Barnwell's estimated site restoration and abandonment costs of its oil and natural gas properties are capitalized as part of the carrying amount of oil and natural gas properties and depleted over the life of the related reserves. When the assumptions used to estimate a recorded asset retirement obligation change, a revision is recorded to both the asset retirement obligation and the capitalized cost of asset retirements. The liability is accreted at the end of each period through charges to oil and natural gas operating expense.

#### Income Taxes

Income taxes are determined using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax impacts of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Management evaluates its potential exposures from tax positions taken that have been or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations and rules. Management considers the possibility of alternative outcomes based upon past experience, previous actions by taxing authorities (e.g., actions taken in other jurisdictions) and advice from tax experts. Recognized tax positions are initially and subsequently measured as the largest amount of tax benefit that is more likely than not of being realized upon ultimate settlement with a taxing authority on a jurisdiction-by-jurisdiction basis. Liabilities for unrecognized tax benefits related to such tax positions are included in long-term liabilities unless the tax position is expected to be settled within the upcoming year, in which case the liabilities are included in current liabilities. Interest and penalties related to uncertain tax positions are included in income tax expense.

#### Contract Drilling

Revenues, costs and profits applicable to contract drilling contracts are included in the Consolidated Statements of Operations using the percentage of completion method, principally measured by the percentage of labor dollars incurred to date for each contract to total estimated labor dollars for each contract. Contract losses are recognized in full in the period the losses are identified. The performance of drilling contracts may extend over more than a year and, in the interim periods, estimates of total contract costs and profits are used to determine revenues and profits earned for reporting the results of contract drilling operations. Revisions in the estimates required by subsequent performance and final contract settlements are included as adjustments to the results of operations in the period such revisions and settlements occur. Contracts are normally less than a year in duration.

## Environmental

Barnwell is subject to extensive environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and maintenance of surface conditions and may require Barnwell to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefit are expensed. Liabilities for expenditures of a noncapital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated.

Barnwell recognizes an insurance receivable related to environmental expenditures when collection of the receivable is deemed probable. Any recognition of an insurance receivable is recorded by crediting and offsetting the original charge. Any differential arising between insurance recoveries and insurance receivables is expensed or capitalized, consistent with the original treatment.

## Foreign Currency Translation

Assets and liabilities of foreign subsidiaries are translated at the year-end exchange rate. Operating results of foreign subsidiaries are translated at average exchange rates during the period. Translation adjustments have no effect on net income and are included in "Accumulated other comprehensive loss, net" in stockholders' equity.

## Fair Value Measurements

Fair value is defined as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are classified and disclosed in one of the following categories:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities in active markets and have the highest priority.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the financial asset or liability and have the lowest priority.

## Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This ASU relates to discontinued operations reporting for disposals of components of an entity that represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results. The standard expands the disclosures for discontinued operations and requires new disclosures related to individually material disposals that do not meet the definition of a discontinued operation. The Company adopted the provisions of this ASU effective October 1, 2015. The adoption of this update did not have a material impact on Barnwell's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes," which eliminates the requirement to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Instead, entities will be required to classify all deferred tax assets and liabilities, along with any related valuation allowance, as noncurrent. The Company prospectively adopted the provisions of this ASU effective July 1, 2016. The adoption of this ASU resulted in a reclassification of current deferred tax assets from the current assets section of the balance sheet to "Deferred income taxes" in the long-term liabilities sections of the balance sheet.

## 2. LIQUIDITY

At September 30, 2016, Barnwell had \$15,550,000 in cash and cash equivalents and working capital totaled \$16,378,000. Due to the negative impacts of 1) declines in oil and natural gas prices; 2) declines in oil and natural gas production due to both oil and natural gas property sales and the natural decline oil and natural gas wells experience as they age; 3) increasing costs due to both inflation and the age of Barnwell's properties and other factors, Barnwell's existing oil and natural gas assets are projected to have minimal cash flow from operations. As a result, the Company's current cash on hand will likely not be sufficient to fund both the significant reinvestments that are necessary to sustain our oil and natural gas business in the future and our asset retirement obligations, retirement plan funding, and ongoing operating and general and administrative expenses. Therefore, it is likely that Barnwell will be increasingly reliant upon future land investment segment proceeds from percentage of sales payments, if any, and future cash distributions, if any, from the Kukio Resort land development partnerships, the timing of which are both highly uncertain and not within Barnwell's control, to fund operations and provide capital for reinvestment. If the Company is unable to make sufficient and successful reinvestments, or if unforeseen circumstances arise that impair our ability to sustain or grow the Company, we may be forced to wind down our operations, either through liquidation, bankruptcy or further sales of our assets, and/or we may not be able to continue as a going concern in the longer term beyond one year after the date of these financial statements.

## 3. EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per share is computed using the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share is calculated using the treasury stock method to reflect the assumed issuance of common shares for all potentially dilutive securities, which consist of outstanding stock options. Potentially dilutive shares are excluded from the computation of diluted earnings (loss) per share if their effect is anti-dilutive.

Options to purchase 621,250 shares of common stock were excluded from the computation of diluted shares for both fiscal years 2016 and 2015, as their inclusion would have been antidilutive.

Reconciliations between net earnings (loss) attributable to Barnwell stockholders and common shares outstanding of the basic and diluted net earnings (loss) per share computations are detailed in the following tables:

|  | Year ended September 30, 2016 |                         |                     |
|--|-------------------------------|-------------------------|---------------------|
|  | Net Loss<br>(Numerator)       | Shares<br>(Denominator) | Per-Share<br>Amount |
| Basic net loss per share                             | \$(3,615,000)                 | 8,277,160               | \$ (0.44 )          |
| Effect of dilutive securities - common stock options | —                             | —                       |                     |
| Diluted net loss per share                           | \$(3,615,000)                 | 8,277,160               | \$ (0.44 )          |

|  | Year ended September 30, 2015 |                         |                     |
|--|-------------------------------|-------------------------|---------------------|
|  | Net Earnings<br>(Numerator)   | Shares<br>(Denominator) | Per-Share<br>Amount |
| Basic net earnings per share                         | \$1,263,000                   | 8,277,160               | \$ 0.15             |
| Effect of dilutive securities - common stock options | —                             | —                       |                     |
| Diluted net earnings per share                       | \$1,263,000                   | 8,277,160               | \$ 0.15             |

#### 4. SHARE-BASED PAYMENTS

The Company's share-based compensation benefit and related income tax effects are as follows:

|                     | Year ended September<br>30, |             |
|---------------------|-----------------------------|-------------|
|                     | 2016                        | 2015        |
| Share-based benefit | \$(22,000)                  | \$(140,000) |
| Income tax effect   | \$—                         | \$—         |

Share-based compensation benefit recognized in (loss) earnings for the years ended September 30, 2016 and 2015 are reflected in "General and administrative" expenses in the Consolidated Statements of Operations. There was no impact on income taxes for the years ended September 30, 2016 and 2015 due to a full valuation allowance on the related deferred tax asset.

#### Description of Share-Based Payment Arrangements

The Company's stock option plans are administered by the Compensation Committee of the Board of Directors.

The stockholder-approved 2008 Equity Incentive Plan provides for the issuance of incentive stock options, nonstatutory stock options, stock options with stock appreciation rights, restricted stock, restricted stock units and performance units, qualified performance-based awards, and stock grants to employees, consultants and non-employee members of the Board of Directors. 800,000 shares of Barnwell common stock have been reserved for issuance and as of September 30, 2016, a total of 62,500 share options remain available for grant. Stock options grants include nonqualified stock options that have exercise prices equal to Barnwell's stock price on the date of grant, vest annually over a service period of four years commencing one year from the date of grant and expire ten years from the date of grant. Certain options have stock

appreciation rights that permit the holder to receive stock, cash or a combination thereof equal to the amount by which the fair market value, at the time of exercise of the option, exceeds the option price.

Barnwell currently has a policy of issuing new shares to satisfy share option exercises when the optionee requests shares.

As of September 30, 2016, there was \$8,000 of total unrecognized compensation cost related to nonvested share options. That cost is expected to be recognized over 1.2 years.

#### Equity-classified Awards

Compensation cost for equity-classified awards is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service period.

A summary of the activity in Barnwell's equity-classified share options from October 1, 2015 through September 30, 2016 is presented below:

| Options                           | Shares | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual Term | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------|--------|---|---|---------------------------------|
| Outstanding at October 1, 2015    | 30,000 | \$ 3.01                                   |   |                                 |
| Granted                           | —      | —   |   |                                 |
| Exercised                         | —      | —   |   |                                 |
| Expired/Forfeited                 | —      | —   |   |                                 |
| Outstanding at September 30, 2016 | 30,000 | \$ 3.01                                   | 7.2   | \$ —                            |
| Exercisable at September 30, 2016 | 15,000 | \$ 3.01                                   | 7.2   | \$ —                            |

Total share-based compensation expense for equity-classified awards vested in the years ended September 30, 2016 and 2015 was \$10,000 and \$20,000, respectively.

#### Liability-classified Awards

Compensation cost for liability-classified awards is remeasured to current fair value using a closed-form valuation model based on current values at each period end with the change in fair value recognized as an expense or benefit until the award is settled.

The following assumptions were used in estimating fair value for all liability-classified share options outstanding:

|                             | Year ended September 30, |                |
|-----------------------------|--------------------------|----------------|
|                             | 2016                     | 2015           |
| Expected volatility range   | 56.7% to 72.7%           | 51.5% to 61.6% |
| Weighted-average volatility | 63.6%                    | 52.4%          |
| Expected dividends          | None                     | None           |
| Expected term (in years)    | 1.2 to 7.2               | 2.2 to 8.2     |
| Risk-free interest rate     | 0.6% to 1.4%             | 0.6% to 1.9%   |
| Expected forfeitures        | None                     | None           |

The application of alternative assumptions could produce significantly different estimates of the fair value of share-based compensation, and consequently, the related costs reported in the Consolidated Statements of Operations.

A summary of the activity in Barnwell's liability-classified share options from October 1, 2015 through September 30, 2016 is presented below:

| Options                           | Shares  | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|-----------------------------------|---------|---------------------------------|---|---------------------------|
| Outstanding at October 1, 2015    | 591,250 | \$ 7.98                         |   |                           |
| Granted                           | —       | —                               |   |                           |
| Exercised                         | —       | —                               |   |                           |
| Expired/Forfeited                 | —       | —                               |   |                           |
| Outstanding at September 30, 2016 | 591,250 | \$ 7.98                         | 2.5   | \$ —                      |
| Exercisable at September 30, 2016 | 576,250 | \$ 8.11                         | 2.4   | \$ —                      |

The following table summarizes the components of the total share-based compensation for liability-classified awards:

|   | Year ended<br>September 30, |             |
|---|-----------------------------|-------------|
|   | 2016                        | 2015        |
| Due to vesting  | \$4,000                     | \$10,000    |
| Due to remeasurement  | (36,000 )                   | (170,000 )  |
| Total share-based compensation benefit for liability-based awards | \$(32,000)                  | \$(160,000) |

## 5. ACCOUNTS RECEIVABLE AND CONTRACT COSTS

Accounts receivable are net of allowances for doubtful accounts of \$40,000 and \$23,000 as of September 30, 2016 and 2015, respectively. Included in accounts receivable are contract retainage balances of \$202,000 and \$257,000 as of September 30, 2016 and 2015, respectively. The retainage balance as of

September 30, 2016 is expected to be collected within one year, generally within 45 days after the related contracts have received final acceptance and approval.

Costs and estimated earnings on uncompleted contracts are as follows:

|   | September 30, |              |
|---|---------------|--------------|
|   | 2016          | 2015         |
| Costs incurred on uncompleted contracts | \$966,000     | \$1,890,000  |
| Estimated earnings                      | 70,000        | 226,000      |
|   | 1,036,000     | 2,116,000    |
| Less billings to date                   | 1,112,000     | 2,503,000    |
|   | \$(76,000 )   | \$(387,000 ) |

Costs and estimated earnings on uncompleted contracts are included in the Consolidated Balance Sheets as follows:

|   | September 30, |             |
|---|---------------|-------------|
|   | 2016          | 2015        |
| Costs and estimated earnings in excess of billings on uncompleted contracts (included in other current assets)      | \$89,000      | \$182,000   |
| Billings in excess of costs and estimated earnings on uncompleted contracts (included in other current liabilities) | (165,000 )    | (569,000 )  |
|   | \$(76,000)    | \$(387,000) |

#### 6. ASSET HELD FOR SALE

At September 30, 2016, the Company had listed for sale its New York office. Accordingly, the Company designated this property as asset held for sale and recorded the carrying value of this property in the aggregate amount of \$1,829,000 as "Asset held for sale" on the Company's Consolidated Balance Sheet at September 30, 2016.

#### 7. INVESTMENT HELD FOR SALE

At September 30, 2016, Kaupulehu 2007 owned one residential lot available for sale in the Lot 4A Increment I area located in the North Kona District of the island of Hawaii, north of Hualalai Resort at Historic Ka`upulehu, between the Queen Kaahumanu Highway and the Pacific Ocean. A second residential parcel was sold in October 2014 for \$1,250,000 for a nominal loss which is included in "General and administrative" expenses in the Consolidated Statement of Operations for the year ended September 30, 2015.

#### 8. REAL ESTATE HELD FOR SALE

In April 2016, the residence that was available for sale in Lot 4A Increment I was sold for \$5,700,000 in gross proceeds, before commission and other closing costs, and as a result of the sale, income in the amount of \$190,000 was recognized during the year ended September 30, 2016.



## 9. INVESTMENTS

A summary of Barnwell's non-current investments is as follows:

|  | September 30, |             |
|--|---------------|-------------|
|  | 2016          | 2015        |
| Investment in Kukio Resort land development partnerships | \$3,502,000   | \$6,238,000 |
| Investment in leasehold land interest – Lot 4C           | 50,000        | 50,000      |
| Total non-current investments                            | \$3,552,000   | \$6,288,000 |

## Investment in Kukio Resort land development partnerships

On November 27, 2013, Barnwell, through a wholly-owned subsidiary, entered into two limited liability limited partnerships, KD Kona 2013 LLLP and KKM Makai, LLLP, and indirectly acquired a 19.6% non-controlling ownership interest in each of KD Kukio Resorts, LLLP, KD Maniniowali, LLLP and KD Kaupulehu, LLLP for \$5,140,000. These entities own certain real estate and development rights interests in the Kukio, Maniniowali and Kaupulehu portions of Kukio Resort, a private residential community on the Kona coast of the island of Hawaii, as well as Kukio Resort's real estate sales office operations. KD Kaupulehu, LLLP, which is comprised of KD I and KD II, is the developer of Kaupulehu Lot 4A Increments I and II, the area in which Barnwell has interests in percentage of sales payments. Barnwell's investment in these entities is accounted for using the equity method of accounting. The partnerships derive income from the sale of residential parcels, of which 25 lots remained to be sold at Kaupulehu Increment I and one ocean front parcel over two acres in size remained to be sold in Kaupulehu Increment II at September 30, 2016, as well as from commissions on real estate sales by the real estate sales office.

In April 2016, the Kukio Resort land development partnerships made a cash distribution to its partners of which Barnwell received \$5,320,000, after distributing \$40,000 to minority interests.

Equity in income of affiliates was \$2,624,000 and \$1,580,000 for the years ended September 30, 2016 and 2015, respectively. The equity in the underlying net assets of the Kukio Resort land development partnerships exceeds the carrying value of the investment in affiliates by approximately \$351,000 as of September 30, 2016, which is attributable to differences in the value of capitalized development costs and a note receivable. The basis difference for the capitalized development costs will be recognized as the partnerships sell lots and recognize the associated costs. The basis difference for the note receivable will be recognized as the partnerships sell memberships for the Kuki`o Golf and Beach Club for which the receivable relates. The basis difference adjustments of \$39,000 and \$82,000, for the years ended September 30, 2016 and 2015, respectively, increased equity in income of affiliates.

Barnwell, as well as KD I, KD II and certain other owners of the partnerships, have jointly and severally executed a surety indemnification agreement. Bonds issued by the surety at September 30, 2016 totaled approximately \$325,000 and relate to certain construction contracts of KD I. If any such performance bonds are called, we may be obligated to reimburse the issuer of the performance bonds as Barnwell, KD I, and certain other partners are jointly and severally liable, however we believe that it is remote that a material amount of any currently outstanding performance bonds will be called. Performance bonds do not have stated expiration dates. Rather, the performance bonds are released as the underlying performance is completed.

As of September 30, 2016, Barnwell's maximum loss exposure as a result of its investment in the Kukio Resort land development partnerships was approximately \$3,827,000, consisting of the carrying value

of the investment of \$3,502,000 and \$325,000 from the surety indemnification agreement of which we are jointly and severally liable.

Summarized financial information for the Kukio Resort land development partnerships is as follows:

|              | Year ended<br>September<br>30, 2016 | Year ended<br>September<br>30, 2015 |
|--------------|-------------------------------------|-------------------------------------|
| Revenue      | \$33,874,000                        | \$29,898,000                        |
| Gross profit | \$15,332,000                        | \$13,594,000                        |
| Net earnings | \$12,212,000                        | \$7,500,000                         |

#### Percentage of sales payments

Kaupulehu Developments has the right to receive payments from KD I and KD II resulting from the sale of lots and/or residential units within approximately 870 acres of the Kaupulehu Lot 4A area by KD I and KD II in two increments (“Increment I” and “Increment II”) (see Note 20).

With respect to Increment I, Kaupulehu Developments is entitled to receive payments from KD I based on the following percentages of the gross receipts from KD I’s sales of single-family residential lots in Increment I: 9% of the gross proceeds from single-family lot sales up to aggregate gross proceeds of \$100,000,000; 10% of such aggregate gross proceeds greater than \$100,000,000 up to \$300,000,000; and 14% of such aggregate gross proceeds in excess of \$300,000,000. In fiscal 2016, three single-family lots in Increment I were sold bringing the total amount of gross proceeds from single-family lot sales through September 30, 2016 to \$205,000,000. As of September 30, 2016, 25 single-family lots, of the 80 lots developed within Increment I, remained to be sold.

Kaupulehu Developments is entitled to receive payments from KD II resulting from the sale of lots and/or residential units by KD II within Increment II. The payments are based on a percentage of gross proceeds from KD II’s sales ranging from 8% to 10% of the price of improved or unimproved lots or 2.60% to 3.25% of the price of units constructed on a lot, to be determined in the future depending upon a number of variables, including whether the lots are sold prior to improvement. Kaupulehu Developments is also entitled to receive up to \$8,000,000 in additional payments after the members of KD II have received distributions equal to the capital they invested in the project. Two ocean front parcels approximately two to three acres in size fronting the ocean were developed within Increment II by KD II, and the remaining acreage within Increment II is not yet under development. It is uncertain when or if KD II will develop the other areas of Increment II. As of September 30, 2016, one of the ocean front parcels remained to be sold.

The following table summarizes the Increment I and Increment II percentage of sales payment revenues received from KD I and KD II:

|  | Year ended September<br>30, |             |
|--|-----------------------------|-------------|
|  | 2016                        | 2015        |
| Sale of interest in leasehold land:                |                             |             |
| Proceeds   | \$2,255,000                 | \$3,772,000 |
| Fees   | (340,000 )                  | (528,000 )  |
| Revenues – sale of interest in leasehold land, net | \$1,915,000                 | \$3,244,000 |



There is no assurance with regards to the amounts of future payments from Increment I or Increment II to be received.

Investment in leasehold land interest – Lot 4C

Kaupulehu Developments holds an interest in an area of approximately 1,000 acres of vacant leasehold land zoned conservation located adjacent to Lot 4A, which currently has no development potential without both a development agreement with the lessor and zoning reclassification. The lease terminates in December 2025.

## 10. OIL AND NATURAL GAS PROPERTIES

### 2016 Acquisition

On September 12, 2016, Barnwell completed the acquisition of additional working interests in oil and natural gas properties located in the Wood River area of Alberta, Canada, for cash consideration. The sales price per the agreement was adjusted for customary purchase price adjustments to \$769,000 in order to, among other things, reflect an economic effective date of September 1, 2016. The final determination of the customary adjustments to the purchase price has not yet been made however it is not expected to result in material adjustments.

The Wood River acquisition was accounted for under the acquisition method of accounting, and as such, Barnwell estimated the fair value of the acquired property as of the September 12, 2016 acquisition date. The following table summarizes the allocation of the consideration paid to acquire the properties to the assets acquired and liabilities assumed in the transaction as of the acquisition date. See Note 17 for further information regarding the fair value measurement inputs.

|                                  |           |
|----------------------------------|-----------|
| Property and equipment           | \$813,000 |
| Asset retirement obligation      | (44,000 ) |
| Net identifiable assets acquired | \$769,000 |

The results of operations for the Wood River acquisition has been included in the consolidated financial statements from the closing date. Pro forma information is not presented as the pro forma results would not be materially different from the information presented in the Consolidated Statement of Operations.

### 2015 Acquisitions

On November 13, 2014, Barnwell completed the acquisition of additional working interests in oil and natural gas properties located in the Progress area of Alberta, Canada, for cash consideration. The sales price per the agreement was adjusted for customary purchase price adjustments to \$526,000 in order to, among other things, reflect an economic effective date of July 1, 2014.

The Progress acquisition was accounted for under the acquisition method of accounting, and as such, Barnwell estimated the fair value of the acquired property as of the November 13, 2014 acquisition date. The following table summarizes the allocation of the consideration paid to acquire the properties to the assets acquired and liabilities assumed in the transaction as of the acquisition date. See Note 17 for further information regarding the fair value measurement inputs.

|                                  |            |
|----------------------------------|------------|
| Property and equipment           | \$751,000  |
| Asset retirement obligation      | (225,000 ) |
| Net identifiable assets acquired | \$526,000  |

On August 27, 2015, Barnwell completed the acquisition of additional working interests in oil and natural gas properties located in the Progress area of Alberta, Canada, for cash consideration. The sales price per the agreement was adjusted for customary purchase price adjustments to \$306,000 in order to, among other things, reflect an economic effective date of June 1, 2015.

The Progress acquisition was accounted for under the acquisition method of accounting, and as such, Barnwell estimated the fair value of the acquired property as of the August 27, 2015 acquisition date. The following table summarizes the allocation of the consideration paid to acquire the properties to the assets acquired and liabilities assumed in the transaction as of the acquisition date. See Note 17 for further information regarding the fair value measurement inputs.

|                                  |           |
|----------------------------------|-----------|
| Property and equipment           | \$397,000 |
| Asset retirement obligation      | (91,000 ) |
| Net identifiable assets acquired | \$306,000 |

The results of operations for both of the Progress acquisitions have been included in the consolidated financial statements from the closing dates. Pro forma information is not presented as the pro forma results would not be materially different from the information presented in the Consolidated Statement of Operations.

#### 2015 Disposition

Barnwell entered into a purchase and sale agreement with an independent third party and, in September 2015, sold its interests in its principal oil and natural gas properties located in the Dunvegan and Belloy areas of Alberta, Canada. The sales price per the agreement was adjusted for preliminary purchase price adjustments to approximately \$21,875,000 in order to, among other things, reflect an economic effective date of April 1, 2015. Barnwell's share, after broker's fees and other closing costs, was approximately \$14,162,000 and third parties', who were working interest owners in the properties prior to the sale, share, in the aggregate, was approximately \$7,247,000.

The relationship between capitalized costs and proved reserves of the sold property and retained properties was significant as there was a 220% difference in capitalized costs divided by proved reserves if the gain was recorded versus the gain being credited against the full-cost pool. Accordingly, Barnwell recorded a gain on the sale of Dunvegan of \$6,217,000 in the year ended September 30, 2015 in accordance with the guidance in Rule 4-10(c)(6)(i) of Regulation S-X, which requires an allocation of capitalized costs to the reserves sold and reserves retained on the basis of the relative fair values of the properties as there was a substantial economic difference between the properties sold and those retained. Also included in the gain calculation, were asset retirement obligations of \$2,013,000 assumed by the purchaser.

The disposition was recorded in fiscal 2015 using preliminary purchase price adjustments. Barnwell and the purchaser updated and finalized the purchase price adjustments in accordance with the terms of the purchase and sale agreement during fiscal 2016 which resulted in additional proceeds of \$493,000 and the recognition of an additional gain in the amount of \$472,000 during the year ended September 30, 2016, bringing the total gain on the sale of these properties to \$6,689,000.

The unaudited pro forma results of operations are presented below as though the disposition of Dunvegan occurred on October 1, 2014. The unaudited pro forma results do not purport to represent what our actual results of operations would have been if the disposition had been completed on such date or to project our results of operations for any future date or period. The pro forma information includes adjustments to oil and natural gas segment revenues and operating expenses based on the actual results of operations related to Dunvegan, as well as adjustments for estimated depletion, accretion expense, general and administrative expenses, and income taxes based on an allocation of the estimated impact of Dunvegan on those amounts.

| Pro forma (unaudited)  | Year ended September 30,<br>2015 |                |
|--|----------------------------------|----------------|
|  | Historical                       | Pro forma      |
| Total revenues   | \$17,533,000                     | \$13,235,000   |
| Net earnings (loss)  | \$1,769,000                      | \$(761,000 )   |
| Net earnings (loss) attributable to Barnwell Industries, Inc. stockholders                   | \$1,263,000                      | \$(1,267,000 ) |
| Net earnings (loss) per common share attributable to Barnwell Industries, Inc. stockholders. | \$0.15                           | \$(0.15 )      |

## 11. PROPERTY AND EQUIPMENT AND ASSET RETIREMENT OBLIGATION

Barnwell's property and equipment is detailed as follows:

|  | Estimated<br>Useful<br>Lives | Gross<br>Property and<br>Equipment | Accumulated<br>Depletion,<br>Depreciation,<br>and<br>Amortization | Net<br>Property<br>and<br>Equipment |
|--|------------------------------|------------------------------------|---|-------------------------------------|
| At September 30, 2016:                                   |                              |                                    |   |                                     |
| Land   |                              | \$365,000                          | \$—   | \$365,000                           |
| Oil and natural gas properties<br>(full cost accounting) |                              | 66,265,000                         | (61,060,000 )   | 5,205,000                           |
| Drilling rigs and equipment                              | 3 – 10 years                 | 6,379,000                          | (5,770,000 )  | 609,000                             |
| Office   | 40 years                     | 857,000                            | (274,000 )  | 583,000                             |
| Other property and equipment                             | 3 – 17 years                 | 3,002,000                          | (2,862,000 )  | 140,000                             |
| Total  |                              | \$76,868,000                       | \$(69,966,000)  | \$6,902,000                         |
|  | Estimated<br>Useful<br>Lives | Gross<br>Property and<br>Equipment | Accumulated<br>Depletion,<br>Depreciation,<br>and<br>Amortization | Net<br>Property<br>and<br>Equipment |
| At September 30, 2015:                                   |                              |                                    |   |                                     |
| Land   |                              | \$863,000                          | \$—   | \$863,000                           |
| Oil and natural gas properties<br>(full cost accounting) |                              | 63,105,000                         | (57,460,000 )   | 5,645,000                           |
| Drilling rigs and equipment                              | 3 – 10 years                 | 6,598,000                          | (5,825,000 )  | 773,000                             |
| Offices  | 40 years                     | 2,420,000                          | (445,000 )  | 1,975,000                           |
| Other property and equipment                             | 3 – 17 years                 | 2,967,000                          | (2,755,000 )  | 212,000                             |
| Total  |                              | \$75,953,000                       | \$(66,485,000)  | \$9,468,000                         |

See Note 6 for discussion of the designation of the New York office as an asset held for sale at September 30, 2016. See Note 10 for discussion of acquisitions and divestitures of oil and natural gas properties in fiscal 2016 and 2015.

Barnwell recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. The following is a reconciliation of the asset retirement obligation:

|   | Year ended September |              |
|---|----------------------|--------------|
|   | 2016                 | 2015         |
| Asset retirement obligation as of beginning of year   | \$6,936,000          | \$9,163,000  |
| Obligations incurred on new wells drilled or acquired | 167,000              | 316,000      |
| Liabilities associated with properties sold           | —                    | (2,013,000 ) |
| Revision of estimated obligation                      | (68,000 )            | 918,000      |
| Accretion expense                                     | 464,000              | 632,000      |
| Payments  | (459,000 )           | (655,000 )   |
| Foreign currency translation adjustment               | 154,000              | (1,425,000 ) |
| Asset retirement obligation as of end of year         | 7,194,000            | 6,936,000    |
| Less current portion                                  | (1,017,000 )         | (506,000 )   |
| Asset retirement obligation, long-term                | \$6,177,000          | \$6,430,000  |

Asset retirement obligations were reduced by \$2,013,000 in fiscal 2015 for those obligations that were assumed by purchasers of Barnwell's oil and natural gas properties. Barnwell recognized an additional \$918,000 of abandonment and reclamation capitalized costs and liabilities in fiscal 2015 for upward revisions to prior year estimates of costs as a result of the receipt of new and more specific information regarding costs to abandon wells similar to Barnwell's. There were no such obligations assumed or significant revisions in fiscal 2016.

## 12. LONG-TERM DEBT

### Canadian revolving credit facility

On September 30, 2015, Barnwell's revolving credit facility at Royal Bank of Canada was amended and reduced by the bank to \$1,000,000 Canadian dollars, as a result of the sale of the Company's principal oil and natural gas property, Dunvegan, in September 2015. Barnwell repaid the credit facility in full from the proceeds of the disposition. In April 2016, the revolving credit facility was terminated.

Barnwell repaid \$7,000,000 of the Canadian revolving credit facility during the year ended September 30, 2015 and realized foreign currency transaction losses of \$752,000 as a result of the repayment of U.S. dollar denominated debt using Canadian dollars, which is included in "General and administrative" expenses on the Consolidated Statements of Operations for the year ended September 30, 2015.

### Canadian revolving demand facility

In June 2016, Barnwell entered into a new agreement with Royal Bank of Canada for a revolving demand facility in the amount of \$500,000 Canadian dollars, or U.S. \$381,000 at the September 30, 2016 exchange rate. Borrowings under this facility were \$0 and issued letters of credit were \$34,000 at September 30, 2016.

The revolving demand facility is available in U.S. dollars at LIBOR plus 1.0%, at Royal Bank of Canada's U.S. base rate, or in Canadian dollars at Royal Bank of Canada's prime rate. The obligations under



the credit facility are secured by a \$500,000 Canadian dollar, or U.S. \$381,000 at the September 30, 2016 exchange rate, guaranteed investment certificate pledged to the Royal Bank of Canada, which is classified as "Restricted cash" on the accompanying Consolidated Balance Sheet at September 30, 2016.

#### Real estate loan

Barnwell, together with its real estate joint venture, Kaupulehu 2007, had a non-revolving real estate loan with a Hawaii bank. At September 30, 2015, the balance of the real estate loan was \$3,440,000. In April 2016, the home collateralizing the loan was sold and in accordance with the terms of the loan agreement a portion of the proceeds from the sale was used to repay the real estate loan in full.

### 13. RETIREMENT PLANS

Barnwell sponsors a noncontributory defined benefit pension plan ("Pension Plan") covering substantially all of its U.S. employees, with benefits based on years of service and the employee's highest consecutive 5 years average earnings. Barnwell's funding policy is intended to provide for both benefits attributed to service to date and for those expected to be earned in the future. In addition, Barnwell sponsors a Supplemental Employee Retirement Plan ("SERP"), a noncontributory supplemental retirement benefit plan which covers certain current and former employees of Barnwell for amounts exceeding the limits allowed under the Pension Plan, and a postretirement medical insurance benefits plan ("Postretirement Medical") covering officers of Barnwell Industries, Inc., the parent company, who have attained at least 20 years of service of which at least 10 years were at the position of Vice President or higher, their spouses and qualifying dependents.

The following tables detail the changes in benefit obligations, fair values of plan assets and reconciliations of the funded status of the retirement plans:

|  | Pension<br>September 30, |               | SERP          |               | Postretirement Medical |               |
|--|--------------------------|---------------|---------------|---------------|------------------------|---------------|
|  | 2016                     | 2015          | 2016          | 2015          | 2016                   | 2015          |
| <b>Change in Projected Benefit Obligation:</b> |                          |               |               |               |                        |               |
| Benefit obligation at beginning of year        | \$8,683,000              | \$8,299,000   | \$1,900,000   | \$1,767,000   | \$1,319,000            | \$1,227,000   |
| Service cost                                   | 261,000                  | 256,000       | 68,000        | 62,000        | —                      | —             |
| Interest cost                                  | 364,000                  | 356,000       | 86,000        | 77,000        | 56,000                 | 52,000        |
| Actuarial loss                                 | 953,000                  | 110,000       | 318,000       | —             | 1,111,000              | 40,000        |
| Benefits paid                                  | (206,000 )               | (326,000 )    | (6,000 )      | (6,000 )      | —                      | —             |
| Administrative expenses paid                   | —                        | (12,000 )     | —             | —             | —                      | —             |
| Benefit obligation at end of year              | 10,055,000               | 8,683,000     | 2,366,000     | 1,900,000     | 2,486,000              | 1,319,000     |
| <b>Change in Plan Assets:</b>                  |                          |               |               |               |                        |               |
| Fair value of plan assets at beginning of year | 6,488,000                | 7,022,000     | —             | —             | —                      | —             |
| Actual return (loss) on plan assets            | 813,000                  | (446,000 )    | —             | —             | —                      | —             |
| Employer contributions                         | 1,100,000                | 250,000       | 6,000         | 6,000         | —                      | —             |
| Benefits paid                                  | (206,000 )               | (326,000 )    | (6,000 )      | (6,000 )      | —                      | —             |
| Administrative expenses paid                   | —                        | (12,000 )     | —             | —             | —                      | —             |
| Fair value of plan assets at end of year       | 8,195,000                | 6,488,000     | —             | —             | —                      | —             |
| Funded status                                  | \$(1,860,000)            | \$(2,195,000) | \$(2,366,000) | \$(1,900,000) | \$(2,486,000)          | \$(1,319,000) |

|   | Pension<br>September 30, |               | SERP          |               | Postretirement Medical |               |
|---|--------------------------|---------------|---------------|---------------|------------------------|---------------|
|   | 2016                     | 2015          | 2016          | 2015          | 2016                   | 2015          |
| <b>Amounts recognized in the Consolidated Balance Sheets:</b>                                   |                          |               |               |               |                        |               |
| Current liabilities   | \$—                      | \$—           | \$(5,000 )    | \$(5,000 )    | \$—                    | \$—           |
| Noncurrent liabilities  | (1,860,000 )             | (2,195,000 )  | (2,361,000 )  | (1,895,000 )  | (2,486,000 )           | (1,319,000 )  |
| Net amount  | \$(1,860,000)            | \$(2,195,000) | \$(2,366,000) | \$(1,900,000) | \$(2,486,000)          | \$(1,319,000) |
| <b>Amounts recognized in accumulated other comprehensive loss (income) before income taxes:</b> |                          |               |               |               |                        |               |
| Net actuarial loss (gain)   | \$3,521,000              | \$3,038,000   | \$797,000     | \$506,000     | \$1,001,000            | \$(110,000 )  |
| Prior service cost (credit)   | 70,000                   | 77,000        | (70,000 )     | (76,000 )     | —                      | —             |
| Accumulated other comprehensive loss (income)   | \$3,591,000              | \$3,115,000   | \$727,000     | \$430,000     | \$1,001,000            | \$(110,000 )  |

Barnwell estimates that it will make approximately \$500,000 in contributions to the Pension Plan during fiscal 2017. The SERP and Postretirement Medical plans are unfunded and Barnwell will fund benefits when payments are made. Expected payments under the Postretirement Medical plan and SERP for fiscal 2017 are not significant. Fluctuations in actual market returns as well as changes in general interest rates will result in changes in the market value of plan assets and may result in increased or decreased retirement benefits costs and contributions in future periods.



The pension plan actuarial losses in fiscal 2016 were primarily due to a decrease in the discount rate which was slightly offset by actual investment returns being greater than the assumed rate of return and an updated mortality projection scale. The SERP actuarial losses in fiscal 2016 were primarily due to a decrease in the discount rate which was slightly offset by an updated mortality projection scale. The postretirement medical plan actuarial losses in fiscal 2016 were primarily due to increases in the medical insurance premium assumptions and a decrease in the discount rate which were slightly offset by an updated mortality projection scale. The pension plan actuarial losses in fiscal 2015 were primarily due to actual investment returns being lower than the assumed rate of return.

The following table presents the weighted-average assumptions used to determine benefit obligations and net benefit costs:

|  | Pension                  |       | SERP  |       | Postretirement<br>Medical |       |
|--|--------------------------|-------|-------|-------|---------------------------|-------|
|  | Year ended September 30, |       |       |       |                           |       |
|  | 2016                     | 2015  | 2016  | 2015  | 2016                      | 2015  |
| Assumptions used to determine fiscal year-end benefit obligations: |                          |       |       |       |                           |       |
| Discount rate  | 3.50%                    | 4.25% | 3.50% | 4.25% | 3.50%                     | 4.25% |
| Rate of compensation increase                                      | 4.00%                    | 4.00% | 4.00% | 4.00% | N/A                       | N/A   |
| Assumptions used to determine net benefit costs (years ended):     |                          |       |       |       |                           |       |
| Discount rate  | 4.25%                    | 4.25% | 4.25% | 4.25% | 4.25%                     | 4.25% |
| Expected return on plan assets                                     | 7.00%                    | 7.00% | N/A   | N/A   | N/A                       | N/A   |
| Rate of compensation increase                                      | 4.00%                    | 4.00% | 4.00% | 4.00% | N/A                       | N/A   |

The components of net periodic benefit cost are as follows:

|   | Pension                  |            | SERP      |           | Postretirement<br>Medical |          |
|---|--------------------------|------------|-----------|-----------|---------------------------|----------|
|   | Year ended September 30, |            |           |           |                           |          |
|   | 2016                     | 2015       | 2016      | 2015      | 2016                      | 2015     |
| Net periodic benefit cost for the year:     |                          |            |           |           |                           |          |
| Service cost                                | \$261,000                | \$256,000  | \$68,000  | \$62,000  | \$—                       | \$—      |
| Interest cost                               | 364,000                  | 356,000    | 86,000    | 77,000    | 56,000                    | 52,000   |
| Expected return on plan assets              | (484,000 )               | (500,000 ) | —         | —         | —                         | —        |
| Amortization of prior service cost (credit) | 5,000                    | 5,000      | (5,000 )  | (5,000 )  | —                         | —        |
| Amortization of net actuarial loss (gain)   | 141,000                  | 86,000     | 27,000    | 24,000    | —                         | (5,000 ) |
| Net periodic benefit cost                   | \$287,000                | \$203,000  | \$176,000 | \$158,000 | \$56,000                  | \$47,000 |

The amounts that are estimated to be amortized from accumulated other comprehensive loss into net periodic benefit cost in the next fiscal year are as follows:

|                             | Pension   | SERP       | Postretirement<br>Medical |
|-----------------------------|-----------|------------|---------------------------|
| Prior service cost (credit) | \$5,000   | \$(5,000 ) | \$ —                      |
| Net actuarial loss          | 163,000   | 36,000     | 188,000                   |
|                             | \$168,000 | \$31,000   | \$ 188,000                |



The accumulated benefit obligation differs from the projected benefit obligation in that it assumes future compensation levels will remain unchanged. The accumulated benefit obligation for the pension plan was \$8,566,000 and \$7,420,000 at September 30, 2016 and 2015, respectively. The accumulated benefit obligation for the SERP was \$1,822,000 and \$1,458,000 at September 30, 2016 and 2015, respectively.

The benefits expected to be paid under the retirement plans as of September 30, 2016 are as follows:

|   | Pension     | SERP      | Postretirement<br>Medical |
|---|-------------|-----------|---------------------------|
| Expected Benefit Payments:                          |             |           |                           |
| Fiscal year ending September 30, 2017               | \$279,000   | \$5,000   | \$ —                      |
| Fiscal year ending September 30, 2018               | \$298,000   | \$4,000   | \$ 42,000                 |
| Fiscal year ending September 30, 2019               | \$284,000   | \$3,000   | \$ 44,000                 |
| Fiscal year ending September 30, 2020               | \$389,000   | \$72,000  | \$ 39,000                 |
| Fiscal year ending September 30, 2021               | \$413,000   | \$73,000  | \$ 72,000                 |
| Fiscal years ending September 30, 2022 through 2026 | \$2,511,000 | \$642,000 | \$ 413,000                |

The following table provides the assumed health care cost trend rates related to the measurement of Barnwell's postretirement medical obligations.

|  | Year ended<br>September<br>30, |      |
|--|--------------------------------|------|
|  | 2016                           | 2015 |
| Health care cost trend rates assumed for next year | 7.75%                          | 8.0% |
| Ultimate cost trend rate                           | 5.0%                           | 5.0% |
| Year that the rate reaches the ultimate trend rate | 2028                           | 2028 |

An 8.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2016. This assumption is based on the plans' recent experience. It is assumed that the rate will decrease gradually to 5% for fiscal 2028 and remain level thereafter. The assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement medical obligations. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

|  | 1-Percentage<br>Point<br>Increase | 1-Percentage<br>Point (Decrease) |
|--|-----------------------------------|----------------------------------|
| Effect on total service and interest cost components     | \$ 11,000                         | \$ (9,000 )                      |
| Effect on accumulated postretirement benefit obligations | \$ 527,000                        | \$ (416,000 )                    |

#### Plan Assets

Management communicates periodically with its professional investment advisors to establish investment policies, direct investments and select investment options. The overall investment objective of the Pension Plan is to attain a diversified combination of investments that provides long-term growth in the assets of the plan to fund future benefit obligations while managing risk in order to meet current benefit obligations. Generally, interest and dividends received provide cash flows to fund current benefit obligations. Longer-term obligations are generally estimated to be provided for by growth in equity securities. The



Company's investment policy permits investments in a diversified mix of U.S. and international equities, fixed income securities and cash equivalents.

Barnwell's investments in fixed income securities include corporate bonds, preferred securities, and fixed income exchange-traded funds. The Company's investments in equity securities primarily include domestic and international large-cap companies, as well as, domestic and international equity securities exchange-traded funds. Plan assets include \$4,000 of Barnwell's stock at September 30, 2016.

The Company's year-end target allocation, by asset category, and the actual asset allocations were as follows:

| Asset Category          | Target<br>Allocation | September<br>30, |      |
|-------------------------|----------------------|------------------|------|
|                         |                      | 2016             | 2015 |
| Cash and other          | 0% - 30%             | 7%               | 9%   |
| Fixed income securities | 20% - 60%            | 23%              | 22%  |
| Equity securities       | 30% - 70%            | 70%              | 69%  |

Actual investment allocations may vary from our target allocations from time to time due to prevailing market conditions. We periodically review our actual investment allocations and rebalance our investments to our target allocations as dictated by current and anticipated market conditions and required cash flows.

We categorize plan assets into three levels based upon the assumptions used to price the assets. Level 1 provides the most reliable measure of fair value, whereas Level 3 requires significant management judgment in determining the fair value. Equity securities and exchange-traded funds are valued by obtaining quoted prices on recognized and highly liquid exchanges. Fixed income securities are valued based upon the closing price reported in the active market in which the security is traded. All of our plan assets are categorized as Level 1 assets, and as such, the actual market value is used to determine the fair value of assets. The following tables set forth by level, within the fair value hierarchy, pension plan assets at their fair value:



|   | Carrying<br>Amount<br>as of<br>September 30,<br>2016 | Fair Value Measurements Using:                        |   |  |
|---|--|---|---|--|
|   |  | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Financial Assets:                       |  |   |   |  |
| Cash                                    | \$ 571,000   | \$571,000   | \$ —  | —  |
| Corporate bonds                         | 316,000  | 316,000   | —   | —  |
| Fixed income exchange-traded funds      | 1,414,000  | 1,414,000   | —   | —  |
| Preferred securities                    | 184,000  | 184,000   | —   | —  |
| Equity securities exchange-traded funds | 818,000  | 818,000   | —   | —  |
| Equities                                | 4,892,000  | 4,892,000   | —   | —  |
| Total                                   | \$ 8,195,000   | \$ 8,195,000  | \$ —  | —  |
|   |  |   |   |  |
|   | Carrying<br>Amount<br>as of<br>September 30,<br>2015 | Fair Value Measurements Using:                        |   |  |
|   |  | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Financial Assets:                       |  |   |   |  |
| Cash                                    | \$ 621,000   | \$621,000   | \$ —  | —  |
| Corporate bonds                         | 354,000  | 354,000   | —   | —  |
| Fixed income exchange-traded funds      | 819,000  | 819,000   | —   | —  |
| Preferred securities                    | 230,000  | 230,000   | —   | —  |
| Equity securities exchange-traded funds | 764,000  | 764,000   | —   | —  |
| Equities                                | 3,700,000  | 3,700,000   | —   | —  |
| Total                                   | \$ 6,488,000   | \$ 6,488,000  | \$ —  | —  |

#### 14. INCOME TAXES

The components of earnings (loss) before income taxes, after adjusting the earnings (loss) for non-controlling interests, are as follows:

|               | Year ended September<br>30, |             |
|---------------|-----------------------------|-------------|
|               | 2016                        | 2015        |
| United States | \$(360,000)                 | \$1,011,000 |
| Canada        | (3,977,000)                 | 1,460,000   |
|               | \$(4,337,000)               | \$2,471,000 |

The components of the income tax provision (benefit) related to the above income (loss) are as follows:

|                               | Year ended September<br>30, |             |
|-------------------------------|-----------------------------|-------------|
|                               | 2016                        | 2015        |
| Current (benefit) provision:  |                             |             |
| United States – Federal       | \$—                         | \$—         |
| United States – State         | —                           | 94,000      |
|                               | —                           | 94,000      |
| Canadian                      | (651,000 )                  | 1,529,000   |
| Total current                 | (651,000 )                  | 1,623,000   |
| Deferred (benefit) provision: |                             |             |
| United States - Federal       | —                           | (90,000 )   |
| United States - State         | 220,000                     | —           |
| Canadian                      | (291,000 )                  | (325,000 )  |
| Total deferred                | (71,000 )                   | (415,000 )  |
|                               | \$(722,000)                 | \$1,208,000 |

During fiscal 2015, Barnwell determined that it was not more likely than not that all of our oil and natural gas deferred tax assets under Canadian tax law were realizable due to significant declines in oil and natural gas prices, which in turn restricted funds available for the oil and natural gas capital expenditures needed to replace production and abate declining reserves. As a result the Company recorded a valuation allowance for the portion of Canadian tax law deferred tax assets related to asset retirement obligations that may not be realizable. The change in the valuation allowance related to asset retirement obligations and Canadian branch tax loss carryforwards that may not be realizable included in the deferred income tax provision (benefit) for the years ended September 30, 2016 and 2015, was a charge of \$292,000 and \$1,028,000, respectively.

On June 29, 2015, the Canadian province of Alberta enacted legislation that increased the provincial corporate tax rate from 10% to 12%, effective July 1, 2015, bringing the total Canadian statutory tax rate applicable to our business from 28.75% to 30.65%. The impact of the enactment, which was not significant, was recorded as a charge to income taxes during the year ended September 30, 2015.

Consolidated taxes do not bear a customary relationship to pretax results due primarily to the fact that the Company is taxed separately in Canada based on Canadian source operations and in the U.S. based on consolidated operations, Canadian income taxes are not estimated to have a future benefit as foreign tax credits or deductions for U.S. tax purposes, and U.S. consolidated net operating losses and other deferred tax assets under U.S. tax law are not estimated to have any future U.S. tax benefit. In addition, consolidated taxes include the aforementioned valuation allowance for a portion of deferred tax assets under Canadian tax law.

A reconciliation between the reported income tax (benefit) provision and the amount computed by multiplying the earnings (loss) attributable to Barnwell before income taxes by the U.S. federal tax rate of 35% is as follows:

|   | Year ended September 30, |              |
|---|--------------------------|--------------|
|   | 2016                     | 2015         |
| Tax (benefit) provision computed by applying statutory rate               | \$(1,518,000)            | \$865,000    |
| Increase in the valuation allowance - U.S. federal and Canadian tax law   | 1,051,000                | 1,653,000    |
| Additional effect of the foreign tax provision on the total tax provision | (484,000 )               | (1,243,000 ) |
| U.S. state deferred tax provision   | 220,000                  | —            |
| Other   | 9,000                    | (67,000 )    |
|   | \$(722,000 )             | \$1,208,000  |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

|  | September 30, |              |
|--|---------------|--------------|
|  | 2016          | 2015         |
| Deferred income tax assets:  |               |              |
| U.S. tax effect of deferred Canadian taxes   | \$—           | \$91,000     |
| Foreign tax credit carryover   | 4,028,000     | 4,661,000    |
| Alternative minimum tax credit carryover   | 460,000       | 460,000      |
| U.S. federal net operating loss carryover  | 8,728,000     | 4,440,000    |
| Tax basis of investment in land and residential real estate in excess of book basis                        | 836,000       | 1,115,000    |
| Property and equipment accumulated book depreciation and depletion in excess of tax under U.S. tax law     | 3,611,000     | 4,494,000    |
| Liabilities accrued for books but not for tax under U.S. tax law   | 4,843,000     | 4,423,000    |
| Liabilities accrued for books but not for tax under Canadian tax law                                       | 2,303,000     | 2,149,000    |
| Other  | 1,108,000     | 746,000      |
| Total gross deferred tax assets  | 25,917,000    | 22,579,000   |
| Less valuation allowance   | (23,410,000)  | (21,387,000) |
| Net deferred income tax assets   | 2,507,000     | 1,192,000    |
| Deferred income tax liabilities:   |               |              |
| Property and equipment accumulated tax depreciation and depletion in excess of book under Canadian tax law | (1,012,000)   | (1,459,000)  |
| Book basis of investment in land development partnerships in excess of tax basis                           | (1,668,000)   | —            |
| Other  | (31,000 )     | (4,000 )     |
| Total deferred income tax liabilities  | (2,711,000)   | (1,463,000)  |
| Net deferred income tax liability  | \$(204,000)   | \$(271,000)  |

Net deferred income tax liability is included in the Consolidated Balance Sheets as follows:

|   | September 30, |             |
|---|---------------|-------------|
|   | 2016          | 2015        |
| Current deferred income tax asset<br>(included in other current assets) | \$—           | \$ 178,000  |
| Deferred income tax liability   | (204,000 )    | (449,000 )  |
| Net deferred income tax liability                                       | \$(204,000)   | \$(271,000) |

The total valuation allowance increased \$2,023,000 for the year ended September 30, 2016. The increase was primarily due to an increase in the valuation allowance for deferred tax assets under U.S. federal tax law primarily related to an increase in U.S. federal net operating loss carryovers that are not more likely than not to have a future tax benefit and the aforementioned valuation allowance necessary for the portion of Canadian tax law deferred tax assets that may not be realizable. The increase was partially offset by a decrease in the valuation allowance due to changes in various other deferred tax assets for which a full valuation allowance had been provided. Of the total net increase in the valuation allowance for fiscal 2016, \$1,344,000 was recognized as income tax expense and \$679,000 was charged to accumulated other comprehensive loss.

Net deferred tax assets at September 30, 2016 of \$2,507,000 consists of the portion of deferred tax assets for which it is estimated that it is more likely than not that such future deductions will be realizable as the result of concurrent deferred tax liability reversals or tax loss carryback strategies under Canadian tax law.

At September 30, 2016, Barnwell had foreign tax credit carryovers, alternative minimum tax credit carryovers, and U.S. federal net operating loss carryovers totaling \$4,028,000, \$460,000 and \$25,671,000, respectively. All three items were fully offset by valuation allowances at September 30, 2016. The net operating loss carryovers expire in fiscal years 2032-2036, and the foreign tax credit carryovers expire in fiscal years 2019-2025.

FASB ASC Topic 740, Income Taxes, prescribes a threshold for recognizing the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by a taxing authority.

Barnwell files U.S. federal income tax returns, income tax returns in various U.S. states, and Canadian federal and provincial tax returns. A number of years may elapse before an uncertain tax position, for which we have unrecognized tax benefits, is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our unrecognized tax benefits reflect the more likely than not outcome. We adjust these unrecognized tax benefits, as well as the related interest, based on ongoing changes in facts and circumstances. Settlement of any particular position could require the use of cash. Favorable resolution for an amount less than the amount estimated by Barnwell would be recognized as a decrease in the effective income tax rate in the period of resolution, and unfavorable resolution in excess of the amount estimated by Barnwell would be recognized as an increase in the effective income tax rate in the period of resolution.

Below are the changes in unrecognized tax benefits.

|   | Year ended    |            |
|---|---------------|------------|
|   | September 30, |            |
|   | 2016          | 2015       |
| Balance at beginning of year                    | \$582,000     | \$660,000  |
| Effect of tax positions taken in prior years    | —             | 92,000     |
| Accrued interest related to tax positions taken | 20,000        | 38,000     |
| Lapse of statute                                | (173,000 )    | (174,000 ) |
| Translation adjustments                         | (52,000 )     | (34,000 )  |
| Balance at end of year                          | \$377,000     | \$582,000  |

The total amount of unrecognized tax benefits at September 30, 2016 that, if recognized, would impact the effective tax rate was \$377,000. Included in the liability for unrecognized tax benefits at September 30, 2016 and 2015, is accrued interest of \$35,000 and \$113,000, respectively.

Uncertain tax positions consist primarily of Canadian federal and provincial issues that involve transfer pricing adjustments. Because of a lack of clarity and uniformity regarding allowable transfer pricing valuations by differing jurisdictions, it is reasonably possible that the total amount of uncertain tax positions may significantly increase or decrease within the next 12 months, and the estimated range of any such variance is not currently estimable based upon facts and circumstances as of September 30, 2016.

Included below is a summary of the tax years, by jurisdiction, that remain subject to examination by taxing authorities at September 30, 2016:

| Jurisdiction               | Fiscal Years Open |
|----------------------------|-------------------|
| U.S. federal               | 2013 – 2015       |
| Various U.S. states        | 2013 – 2015       |
| Canada federal             | 2009 – 2015       |
| Various Canadian provinces | 2009 – 2015       |

## 15. SEGMENT AND GEOGRAPHIC INFORMATION

Barnwell operates the following segments: 1) acquiring, developing, producing and selling oil and natural gas in Canada (oil and natural gas); 2) investing in land interests in Hawaii (land investment); 3) drilling wells and installing and repairing water pumping systems in Hawaii (contract drilling); and 4) developing homes for sale in Hawaii (residential real estate).

The following table presents certain financial information related to Barnwell's reporting segments. All revenues reported are from external customers with no intersegment sales or transfers.

|   | Year ended September 30, |              |
|---|--------------------------|--------------|
|   | 2016                     | 2015         |
| Revenues:   |                          |              |
| Oil and natural gas   | \$3,177,000              | \$9,008,000  |
| Land investment   | 1,915,000                | 3,244,000    |
| Contract drilling   | 2,233,000                | 4,886,000    |
| Residential real estate   | 5,700,000                | —            |
| Other   | 216,000                  | 341,000      |
| Total before interest income  | 13,241,000               | 17,479,000   |
| Interest income   | 46,000                   | 54,000       |
| Total revenues  | \$13,287,000             | \$17,533,000 |
| Depletion, depreciation, and amortization:                            |                          |              |
| Oil and natural gas   | \$1,236,000              | \$2,987,000  |
| Contract drilling   | 251,000                  | 272,000      |
| Other   | 120,000                  | 105,000      |
| Total depletion, depreciation, and amortization                       | \$1,607,000              | \$3,364,000  |
| Impairment:   |                          |              |
| Oil and natural gas   | \$1,154,000              | \$—          |
| Residential real estate   | —                        | 316,000      |
| Total impairment  | \$1,154,000              | \$316,000    |
| Operating profit (loss) (before general and administrative expenses): |                          |              |
| Oil and natural gas   | \$(2,355,000)            | \$(366,000)  |
| Land investment   | 1,915,000                | 3,244,000    |
| Contract drilling   | (116,000)                | 922,000      |
| Residential real estate   | 190,000                  | (316,000)    |
| Other   | 96,000                   | 236,000      |
| Gain on sales of assets   | 472,000                  | 6,489,000    |
| Total operating profit  | 202,000                  | 10,209,000   |
| Equity in income of affiliates:                                       |                          |              |
| Land investment   | 2,624,000                | 1,580,000    |
| General and administrative expenses                                   | (6,361,000)              | (8,551,000)  |
| Interest expense  | (97,000)                 | (315,000)    |
| Interest income   | 46,000                   | 54,000       |
| (Loss) earnings before income taxes                                   | \$(3,586,000)            | \$2,977,000  |

## Capital Expenditures:

|                     | Year ended September 30, |             |
|---------------------|--------------------------|-------------|
|                     | 2016                     | 2015        |
| Oil and natural gas | \$1,872,000              | \$3,512,000 |
| Contract drilling   | 66,000                   | 124,000     |
| Other               | 2,000                    | 79,000      |
| Total               | \$1,940,000              | \$3,715,000 |

## Assets By Segment:

|                             | September 30, |              |
|-----------------------------|---------------|--------------|
|                             | 2016          | 2015         |
| Oil and natural gas (1)     | \$6,323,000   | \$7,298,000  |
| Land investment (2)         | 4,744,000     | 7,480,000    |
| Contract drilling (2)       | 1,438,000     | 2,338,000    |
| Residential real estate (2) | —             | 5,132,000    |
| Other:                      |               |              |
| Cash and cash equivalents   | 15,550,000    | 8,471,000    |
| Restricted cash             | 381,000       | 7,577,000    |
| Corporate and other         | 3,132,000     | 3,257,000    |
| Total                       | \$31,568,000  | \$41,553,000 |

(1) Primarily located in the province of Alberta, Canada.

(2) Located in Hawaii.

## Long-Lived Assets By Geographic Area:

|               | September 30, |              |
|---------------|---------------|--------------|
|               | 2016          | 2015         |
| United States | \$5,187,000   | \$10,135,000 |
| Canada        | 5,267,000     | 5,740,000    |
| Total         | \$10,454,000  | \$15,875,000 |

## Revenue By Geographic Area:

|                                   | Year ended September 30, |              |
|-----------------------------------|--------------------------|--------------|
|                                   | 2016                     | 2015         |
| United States                     | \$9,886,000              | \$8,237,000  |
| Canada                            | 3,355,000                | 9,242,000    |
| Total (excluding interest income) | \$13,241,000             | \$17,479,000 |

## 16. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Components of accumulated other comprehensive (loss) income, net of taxes, are as follows:

|  | Year ended September 30, |               |
|--|--------------------------|---------------|
|  | 2016                     | 2015          |
| Foreign currency translation:  |                          |               |
| Beginning accumulated foreign currency translation                   | \$819,000                | \$1,692,000   |
| Change in cumulative translation adjustment before reclassifications | 87,000                   | (1,625,000 )  |
| Amounts reclassified from accumulated other comprehensive income     | —                        | 752,000       |
| Income taxes   | —                        | —             |
| Net current period other comprehensive income (loss)                 | 87,000                   | (873,000 )    |
| Ending accumulated foreign currency translation                      | 906,000                  | 819,000       |
| Retirement plans:  |                          |               |
| Beginning accumulated retirement plans benefit cost                  | (2,941,000 )             | (1,950,000 )  |
| Amortization of net actuarial loss and prior service cost            | 168,000                  | 105,000       |
| Net actuarial loss arising during the period                         | (2,053,000 )             | (1,096,000 )  |
| Income taxes   | —                        | —             |
| Net current period other comprehensive loss                          | (1,885,000 )             | (991,000 )    |
| Ending accumulated retirement plans benefit cost                     | (4,826,000 )             | (2,941,000 )  |
| Accumulated other comprehensive loss, net of taxes                   | \$(3,920,000)            | \$(2,122,000) |

The realized foreign currency transaction loss in fiscal 2015 related to the repayment of debt was reclassified from accumulated other comprehensive income to “General and administrative” expenses on the accompanying Consolidated Statement of Operations. The amortization of accumulated other comprehensive loss components for the retirement plans are included in the computation of net periodic benefit cost which is a component of “General and administrative” expenses on the accompanying Consolidated Statements of Operations (see Note 13 for additional details).

## 17. FAIR VALUE MEASUREMENTS

The carrying values of cash and cash equivalents, restricted cash, accounts and other receivables, accounts payable and accrued current liabilities approximate their fair values due to the short-term nature of the instruments. The carrying value of debt approximates fair value as the terms approximate current market terms for similar debt instruments of comparable risk and maturities.

A \$316,000 impairment of the value of the real estate held for sale was recognized in the year ended September 30, 2015. In determining the fair value of Barnwell’s real estate held for sale at September 30, 2015, prices for comparable sales transactions were used by an independent real estate consulting and appraisal firm to estimate fair value, which has been classified as a Level 2 valuation.

The estimated fair values of oil and natural gas properties and the asset retirement obligation assumed in the acquisitions of additional oil and natural gas working interests are based on an estimated discounted cash flow model and market assumptions. The significant Level 3 assumptions used in the calculation of estimated discounted cash flows included future commodity prices, projections of estimated quantities of oil and natural gas reserves, expectations for timing and amount of future development, operating and asset



retirement costs, projections of future rates of production, expected recovery rates and risk adjusted discount rates. See Note 10 for additional information regarding oil and natural gas property acquisitions.

Barnwell estimates the fair value of asset retirement obligations based on the projected discounted future cash outflows required to settle abandonment and restoration liabilities. Such an estimate requires assumptions and judgments regarding the existence of liabilities, the amount and timing of cash outflows required to settle the liability, what constitutes adequate restoration, inflation factors, credit adjusted discount rates, and consideration of changes in legal, regulatory, environmental and political environments. Abandonment and restoration cost estimates are determined in conjunction with Barnwell's reserve engineers based on historical information regarding costs incurred to abandon and restore similar well sites, information regarding current market conditions and costs, and knowledge of subject well sites and properties. Asset retirement obligation fair value measurements in the current period were Level 3 fair value measurements. As further described in Note 11, the Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. Asset retirement obligations are not measured at fair value subsequent to initial recognition.

## 18. COMMITMENTS AND CONTINGENCIES

### Lease Commitments

Barnwell has several non-cancelable operating leases for office space, contract drilling base yard space and leasehold land. Rental expense was \$404,000 and \$408,000 for the years ended September 30, 2016 and 2015, respectively. Barnwell is committed under these leases for minimum rental payments summarized by fiscal year as follows:

| Fiscal year ending      |           |
|-------------------------|-----------|
| 2017                    | \$261,000 |
| 2018                    | 138,000   |
| 2019                    | 118,000   |
| 2020                    | 118,000   |
| 2021                    | 118,000   |
| Thereafter through 2026 | 130,000   |
| Total                   | \$883,000 |

The lease payments for leasehold land were subject to renegotiation as of January 1, 2006. Per the lease agreement, the lease payments will remain unchanged pending an appraisal, whereupon the lease rent could be adjusted to fair market value. Barnwell does not know the amount of the new lease payments which could be effective upon performance of the appraisal; they may remain unchanged or increase, and Barnwell currently expects the adjustment, if any, to not be material. The future rental payment disclosures above assume the minimum lease payments for leasehold land in effect at December 31, 2005 remain unchanged through December 2025, the end of the lease term.

The lease agreement for the contract drilling base yard space has stated minimum lease payments with scheduled rent increases through June 30, 2017, after which the lease payments are adjusted to fair market rent at set redetermination dates through the date of the lease termination on June 30, 2047.

## Environmental Matters

In January 2015, there was an oil and saltwater release from one of our operated oil pipelines in Alberta, Canada. The gross environmental remediation costs were approximately \$2,200,000. Barnwell's working interest in the well is 58%, and we have recovered all of the monies from the other working interest owners for their share of the costs. We have collected insurance proceeds, less an \$80,000 deductible, for our share of the costs. There was no remaining liability at September 30, 2016.

In February 2016, a gas migration was detected at one of our previously abandoned non-operated wells in Alberta, Canada. We have estimated that probable environmental remediation costs will be within the range of \$400,000 to \$800,000. Barnwell's working interest in the well is 50%, and accordingly we accrued approximately \$200,000 at September 30, 2016, which has not been discounted and was accrued in "Accrued operating and other expenses" on the Consolidated Balance Sheet, however as non-operator we have no control over the actual cost or timing of the eventual remediation.

Because of the inherent uncertainties associated with environmental assessment and remediation activities, future expenses to remediate the currently identified sites, and sites identified in the future, if any, could be incurred.

## Guarantee

See Note 9 for a discussion of Barnwell's guarantee of the Kukio Resort land development partnership's performance bonds.

## Legal and Regulatory Matters

Barnwell is routinely involved in disputes with third parties that occasionally require litigation. In addition, Barnwell is required to maintain compliance with all current governmental controls and regulations in the ordinary course of business. Barnwell's management is not aware of any claims or litigation involving Barnwell that are likely to have a material adverse effect on its results of operations, financial position or liquidity.

## Other Matters

Barnwell is obligated to pay Nearco, Inc. 10.4% of Kaupulehu Developments' gross receipts from real estate transactions. The fees represent compensation for promotion and marketing of Kaupulehu Developments' property and were determined based on the estimated fair value of such services.

In conjunction with the closing of the Increment II transaction in fiscal 2006, Kaupulehu Developments entered into an agreement to pay its external real estate legal counsel 1.5% of all Increment II percentage of sales payments received by Kaupulehu Developments for services provided by its external real estate legal counsel in the negotiation and closing of the Increment II transaction.

## 19. INFORMATION RELATING TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

The following table details the effect of changes in current assets and liabilities on the Consolidated Statements of Cash Flows, and presents supplemental cash flow information:

|   | Year ended September 30, |               |
|---|--------------------------|---------------|
|   | 2016                     | 2015          |
| Increase (decrease) from changes in:                    |                          |               |
| Receivables   | \$ 1,081,000             | \$ 324,000    |
| Other current assets                                    | 49,000                   | (447,000 )    |
| Accounts payable  | (1,456,000 )             | (439,000 )    |
| Accrued compensation                                    | (79,000 )                | (323,000 )    |
| Other current liabilities                               | (882,000 )               | (687,000 )    |
| Decrease from changes in current assets and liabilities | \$(1,287,000)            | \$(1,572,000) |
| Supplemental disclosure of cash flow information:       |                          |               |
| Cash paid during the year for:                          |                          |               |
| Interest  | \$94,000                 | \$306,000     |
| Income taxes (refunded) paid, net                       | \$(219,000 )             | \$1,812,000   |

Capital expenditure accruals related to oil and natural gas acquisition and development increased \$76,000 and decreased \$61,000 during the years ended September 30, 2016 and 2015, respectively. Additionally, during the years ended September 30, 2016 and 2015, capital expenditure accruals related to oil and natural gas asset retirement obligations increased \$99,000 and \$1,234,000, respectively.

## 20. RELATED PARTY TRANSACTIONS

Kaupulehu Developments is entitled to receive a percentage of the gross receipts from the sales of lots in Increment I from KD I and the sales of lots and/or residential units in Increment II from KD II. KD I and KD II are part of the Kukio Resort land development partnerships in which Barnwell holds an indirect 19.6% non-controlling ownership interest accounted for under the equity method of investment. The percentage payments are part of transactions which took place in 2004 and 2006 where Kaupulehu Developments sold its leasehold interests in Increment I and Increment II to KD I's and KD II's predecessors in interest, respectively, which was prior to Barnwell's affiliation with KD I and KD II which commenced on November 27, 2013, the acquisition date of our ownership interest in the Kukio Resort land development partnerships.

During the year ended September 30, 2016, Barnwell received \$2,255,000 in percentage of sales payments from KD I and KD II from the sale of three lots within Phase II of Increment I and the sale of one lot within Increment II. During the year ended September 30, 2015, Barnwell received \$3,772,000 in percentage of sales payments from KD I from the sale of six contiguous lots within Phase I of Increment I to a single buyer and 11 lots within Phase II of Increment I.

## 21. SUBSEQUENT EVENTS

There were no material subsequent events that would require recognition or disclosure in the accompanying consolidated financial statements.

## 22. SUMMARY OF SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Disclosure is not required as Barnwell qualifies as a smaller reporting company.

## 23. SUPPLEMENTARY OIL AND NATURAL GAS INFORMATION (UNAUDITED)

The following tables summarize information relative to Barnwell's oil and natural gas operations, which are conducted in Canada. Proved reserves are the estimated quantities of oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved producing oil and natural gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. The estimated net interests in total proved and proved producing reserves are based upon subjective engineering judgments and may be affected by the limitations inherent in such estimations. The process of estimating reserves is subject to continual revision as additional information becomes available as a result of drilling, testing, reservoir studies and production history. There can be no assurance that such estimates will not be materially revised in subsequent periods.

## (A) Oil and Natural Gas Reserves

The following table summarizes changes in the estimates of Barnwell's net interests in total proved developed reserves of oil and natural gas liquids and natural gas, which are all in Canada. The Company has no proved undeveloped reserves. All of the information regarding reserves in this Form 10-K is derived from the report of our independent petroleum reserve engineers, InSite, and is included as an Exhibit to this Form 10-K.

|   | OIL &<br>NGL<br>(Bbls) | GAS<br>(Mcf) | Total<br>(Boe) |
|---|------------------------|--------------|----------------|
| Proved reserves:                            |                        |              |                |
| Balance at September 30, 2014               | 724,000                | 9,465,000    | 2,356,000      |
| Revisions of previous estimates             | 79,000                 | (520,000 )   | (11,000 )      |
| Extensions, discoveries and other additions | —                      | 3,000        | 1,000          |
| Acquisitions of reserves                    | 46,000                 | 543,000      | 140,000        |
| Less sales of reserves                      | (237,000)              | (4,679,000)  | (1,044,000)    |
| Less production                             | (143,000)              | (1,688,000)  | (434,000 )     |
| Balance at September 30, 2015               | 469,000                | 3,124,000    | 1,008,000      |
| Revisions of previous estimates             | (23,000 )              | (1,320,000)  | (251,000 )     |
| Extensions, discoveries and other additions | 54,000                 | 95,000       | 70,000         |
| Acquisitions of reserves                    | 34,000                 | 18,000       | 37,000         |
| Less production                             | (84,000 )              | (476,000 )   | (166,000 )     |
| Balance at September 30, 2016               | 450,000                | 1,441,000    | 698,000        |

## (B) Capitalized Costs Relating to Oil and Natural Gas Producing Activities

All capitalized costs relating to oil and natural gas producing activities, which were being depleted in all years, are summarized as follows:

|  | September 30, |              |
|--|---------------|--------------|
|  | 2016          | 2015         |
| Proved properties                      | \$66,044,000  | \$62,960,000 |
| Unproved properties                    | 221,000       | 145,000      |
| Total capitalized costs                | 66,265,000    | 63,105,000   |
| Accumulated depletion and depreciation | 61,060,000    | 57,460,000   |
| Net capitalized costs                  | \$5,205,000   | \$5,645,000  |

## (C) Costs Incurred in Oil and Natural Gas Property Acquisition, Exploration and Development

|                            | Year ended September 30, |             |
|----------------------------|--------------------------|-------------|
|                            | 2016                     | 2015        |
| Acquisition of properties: |                          |             |
| Unproved                   | \$161,000                | \$28,000    |
| Proved                     | 608,000                  | 804,000     |
| Exploration costs          | —                        | —           |
| Development costs          | 1,103,000                | 2,680,000   |
| Total                      | \$1,872,000              | \$3,512,000 |

Development costs incurred in the table above include additions and revisions to Barnwell's asset retirement obligation of \$99,000 and \$1,234,000 for the years ended September 30, 2016 and 2015, respectively.

## (D) Results of Operations for Oil and Natural Gas Producing Activities

|  | Year ended September 30, |               |
|--|--------------------------|---------------|
|  | 2016                     | 2015          |
| Net revenues                               | \$3,177,000              | \$9,008,000   |
| Production costs                           | (3,142,000 )             | (6,387,000 )  |
| Depletion                                  | (1,236,000 )             | (2,987,000 )  |
| Impairment of assets                       | (1,154,000 )             | —             |
| Pre-tax results of operations (1)          | (2,355,000 )             | (366,000 )    |
| Estimated income tax benefit (expense) (2) | 297,000                  | (921,000 )    |
| Results of operations (1)                  | \$(2,058,000)            | \$(1,287,000) |

(1) Before gain on sale of oil and natural gas properties, general and administrative expenses, interest expense, and foreign exchange gains and losses.

(2) Estimated income tax benefit (expense) includes charges to deferred income taxes for the valuation allowance necessary for the portion of Canadian tax law deferred tax assets that may not be realizable.

## (E) Standardized Measure, Including Year-to-Year Changes Therein, of Estimated Discounted Future Net Cash Flows

The following tables utilize reserve and production data estimated by independent petroleum reserve engineers. The information may be useful for certain comparison purposes but should not be solely relied upon in evaluating Barnwell or its performance. Moreover, the projections should not be construed as realistic estimates of future cash flows, nor should the standardized measure be viewed as representing current value.

The estimated future cash flows at September 30, 2016 and 2015 were based on average sales prices in effect on the first day of the month for the preceding twelve month period in accordance with SEC Release No. 33-8995. The future production and development costs represent the estimated future expenditures that we will incur to develop and produce the proved reserves, assuming continuation of existing economic conditions. The future income tax expenses were computed by applying statutory income tax rates in existence at September 30, 2016 and 2015 to the future pre-tax net cash flows relating to proved reserves, net of the tax basis of the properties involved.

Material revisions to reserve estimates may occur in the future, development and production of the oil and natural gas reserves may not occur in the periods assumed and actual prices realized and actual costs incurred are expected to vary significantly from those used. Management does not rely upon this information in making investment and operating decisions; rather, those decisions are based upon a wide range of factors, including estimates of probable reserves as well as proved reserves and price and cost assumptions different than those reflected herein.

## Standardized Measure of Discounted Future Net Cash Flows

|  | September 30, |               |
|--|---------------|---------------|
|  | 2016          | 2015          |
| Future cash inflows                                      | \$17,259,000  | \$27,749,000  |
| Future production costs                                  | (11,951,000 ) | (18,468,000 ) |
| Future development costs                                 | (426,000 )    | (935,000 )    |
| Future income tax expenses                               | (1,016,000 )  | (2,361,000 )  |
| Future net cash flows                                    | 3,866,000     | 5,985,000     |
| 10% annual discount for timing of cash flows             | (956,000 )    | (1,950,000 )  |
| Standardized measure of discounted future net cash flows | \$2,910,000   | \$4,035,000   |

## Changes in the Standardized Measure of Discounted Future Net Cash Flows

|   | Year ended September 30, |               |
|---|--------------------------|---------------|
|   | 2016                     | 2015          |
| Beginning of year   | \$4,035,000              | \$24,147,000  |
| Sales of oil and natural gas produced, net of production costs                  | (35,000 )                | (2,621,000 )  |
| Net changes in prices and production costs, net of royalties and wellhead taxes | (4,134,000 )             | (8,042,000 )  |
| Extensions and discoveries  | 1,285,000                | 1,000         |
| Net change due to purchases and sales of minerals in place                      | 470,000                  | (9,103,000 )  |
| Revisions of previous quantity estimates  | (343,000 )               | 634,000       |
| Net change in income taxes  | 98,000                   | 1,658,000     |
| Accretion of discount   | 412,000                  | 2,021,000     |
| Other - changes in the timing of future production and other                    | 1,018,000                | (1,009,000 )  |
| Other - net change in Canadian dollar translation rate                          | 104,000                  | (3,651,000 )  |
| Net change  | (1,125,000 )             | (20,112,000 ) |
| End of year   | \$2,910,000              | \$4,035,000   |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to Barnwell, including its consolidated subsidiaries, is made known to the officers who certify Barnwell's financial reports and to other members of executive management and the Board of Directors.

As of September 30, 2016, an evaluation was carried out by Barnwell's Chief Executive Officer and Chief Financial Officer of the effectiveness of Barnwell's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Barnwell's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective as of September 30, 2016 to ensure that information required to be disclosed by Barnwell in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Act of 1934 and the rules thereunder.

Management's Annual Report on Internal Control Over Financial Reporting

Barnwell's management is responsible for establishing and maintaining adequate internal control over financial reporting for Barnwell, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of Barnwell's management, including our Chief Executive Officer and Chief Financial Officer, Barnwell conducted an evaluation of the effectiveness of its internal control over financial reporting using criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the report entitled Internal Control — Integrated Framework (2013) (the "COSO Framework"). Based on this evaluation under the COSO Framework, management concluded that its internal control over financial reporting was effective as of September 30, 2016.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Pursuant to Item 308(b) of Regulation S-K, management's report is not subject to attestation by our independent registered public accounting firm because the Company is neither an "accelerated filer" nor a "large accelerated filer" as those terms are defined by the SEC.

Changes in Internal Control Over Financial Reporting

There was no change in Barnwell's internal control over financial reporting during the quarter ended September 30, 2016 that materially affected, or is reasonably likely to materially affect, Barnwell's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.





## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required is omitted pursuant to General Instruction G(3) of Form 10-K, since the Registrant will file its definitive proxy statement for the Annual Meeting of Stockholders no later than 120 days after the close of its fiscal year ended September 30, 2016, which proxy statement is incorporated herein by reference.

Barnwell adopted a Code of Ethics that applies to its Chief Executive Officer and the Chief Financial Officer. This Code of Ethics has been posted on Barnwell's website at [www.brninc.com](http://www.brninc.com).

## ITEM 11. EXECUTIVE COMPENSATION

The information required is omitted pursuant to General Instruction G(3) of Form 10-K, since the Registrant will file its definitive proxy statement for the Annual Meeting of Stockholders no later than 120 days after the close of its fiscal year ended September 30, 2016, which proxy statement is incorporated herein by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required is omitted pursuant to General Instruction G(3) of Form 10-K, since the Registrant will file its definitive proxy statement for the Annual Meeting of Stockholders no later than 120 days after the close of its fiscal year ended September 30, 2016, which proxy statement is incorporated herein by reference.

## Equity Compensation Plan Information

The following table provides information about Barnwell's common stock that may be issued upon exercise of options and rights under Barnwell's existing equity compensation plan as of September 30, 2016:

| Plan Category  | (a)<br>Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b)<br>Weighted-average price of outstanding options, warrants and rights | (c)<br>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|--|---|--|
| Equity compensation plans approved by security holders     | 621,250  | \$7.74  | 62,500   |
| Equity compensation plans not approved by security holders | —  | —   | —  |
| Total  | 621,250  | \$7.74  | 62,500   |

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required is omitted pursuant to General Instruction G(3) of Form 10-K, since the Registrant will file its definitive proxy statement for the Annual Meeting of Stockholders no later than 120 days after the close of its fiscal year ended September 30, 2016, which proxy statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required is omitted pursuant to General Instruction G(3) of Form 10-K, since the Registrant will file its definitive proxy statement for the Annual Meeting of Stockholders no later than 120 days after the close of its fiscal year ended September 30, 2016, which proxy statement is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

The following consolidated financial statements of Barnwell Industries, Inc. and its subsidiaries are included in Part II, Item 8:

Report of Independent Registered Public Accounting Firm – KPMG LLP

Consolidated Balance Sheets – September 30, 2016 and 2015

Consolidated Statements of Operations – for the years ended September 30, 2016 and 2015

Consolidated Statements of Comprehensive Loss – for the years ended September 30, 2016 and 2015

Consolidated Statements of Cash Flows – for the years ended September 30, 2016 and 2015

Consolidated Statements of Equity – for the years ended September 30, 2016 and 2015

Notes to Consolidated Financial Statements

Schedules have been omitted because they were not applicable, not required, or the information is included in the consolidated financial statements or notes thereto.

(b) Exhibits

| Exhibit Number | Description  |
|----------------|--|
| 3.1            | Certificate of Incorporation, as amended (1)   |
| 3.2            | Amended and Restated By-Laws (2)   |
| 4.0            | Form of the Registrant's certificate of common stock, par value \$.50 per share (3)  |
| 10.1           | The Barnwell Industries, Inc. Employees' Pension Plan (restated as of October 1, 1989) (4)                                       |
| 10.2           | Phase I Makai Development Agreement dated June 30, 1992, by and between Kaupulehu Makai Venture and Kaupulehu Developments (5)   |
| 10.3           | KD/KMV Agreement dated June 30, 1992 by and between Kaupulehu Makai Venture and Kaupulehu Developments (5)                       |
| 10.4           | Form of Purchase and Sale Agreement dated February 13, 2004 by and between Kaupulehu Developments and WB KD Acquisition, LLC (6) |
| 10.5           | Form of Agreement Re Step In Rights of Kaupulehu Developments dated February 13, 2004 (7)  |

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- 10.6 Agreement dated May 27, 2009 which became effective June 23, 2009 by and between Kaupulehu Developments and WB KD Acquisition, LLC and WB KD Acquisition II, LLC (8)
- 10.7 Limited Liability Limited Partnership Agreement of KD Kona 2013 LLLP dated November 27, 2013 (9)
- 10.8 Limited Liability Limited Partnership Agreement of KKM Makai, LLLP dated November 27, 2013 (9)

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- 10.9 Loan Agreement, dated as of November 27, 2013 between KD Kona 2013 LLLP and KKM Makai, LLLP, as the borrowers, and American Savings Bank, F.S.B. as the lender (9)
- 10.10 Amended and Restated Credit Facility Agreement dated as of May 11, 2006 between Barnwell of Canada, Limited, as the borrower, and Royal Bank of Canada, as the lender, as amended (10)
- 10.11 Loan Agreement, dated as of March 28, 2011 between Kaupulehu 2007 LLLP and Barnwell Industries, Inc., as the borrowers, and American Savings Bank, F.S.B. as the lender, as amended (10)
- 10.12 Purchase and Sale Agreement, dated August 10, 2015, between Barnwell of Canada, Limited and Canadian Natural Resources Limited (11)
- 10.13 Amended and Restated Credit Facility Agreement dated as of September 30, 2015 between Barnwell of Canada, Limited, as the borrower, and Royal Bank of Canada, as the lender, as amended (12)
- 21 List of Subsidiaries
- 23.1 Consent of KPMG LLP
- 23.2 Consent of InSite Petroleum Consultants Ltd.
- 31.1 Certification of Chief Executive Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Operating Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002
- 31.3 Certification of Chief Financial Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Reserve Report Summary prepared by InSite Petroleum Consultants Ltd.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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- (1) Incorporated by reference to Form 10-K for the year ended September 30, 2013.
  - (2) Incorporated by reference to Form 10-K for the year ended September 30, 2014.
  - (3) Incorporated by reference to the registration statement on Form S-1 originally filed by the Registrant January 29, 1957 and as amended February 15, 1957 and February 19, 1957.
  - (4) Incorporated by reference to Form 10-K for the year ended September 30, 1989.
  - (5) Incorporated by reference to Form 10-K for the year ended September 30, 1992.

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- (6) Incorporated by reference to the Registrant's Form 8-K filed on February 13, 2004 and previously listed as Exhibit 2.1 in Barnwell's Form 10-QSB for the quarterly period ended March 31, 2004.
- (7) Incorporated by reference to the Registrant's Form 8-K filed on February 13, 2004 and previously listed as Exhibit 2.2 in Barnwell's Form 10-QSB for the quarterly period ended March 31, 2004.
- (8) Incorporated by reference to Form 10-Q for the quarterly period ended June 30, 2009.
- (9) Incorporated by reference to Form 10-Q for the quarterly period ended December 31, 2013.
- (10) Incorporated by reference to Form 10-Q for the quarterly period ended March 31, 2015.
- (11) Incorporated by reference to Form 10-Q for the quarterly period ended June 30, 2015.
- (12) Incorporated by reference to Form 10-K for the year ended September 30, 2015.

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.

BARNWELL INDUSTRIES, INC.  
(Registrant)

/s/ Russell M. Gifford

Russell M. Gifford

Chief Financial

Officer,

By: Executive Vice

President,

Treasurer and

Secretary

Date: December 20, 2016

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

/s/ Morton H. Kinzler  
Morton H. Kinzler  
Chief Executive Officer and  
Chairman of the Board  
Date: December 20, 2016

/s/ Russell M. Gifford  
Russell M. Gifford  
Executive Vice President,  
Chief Financial Officer, Treasurer,  
Secretary and Director  
Date: December 20, 2016

/s/ Alexander C. Kinzler  
Alexander C. Kinzler  
President, Chief Operating Officer,  
General Counsel and Director  
Date: December 20, 2016

/s/ Martin Anderson  
Martin Anderson, Director  
Date: December 20, 2016

/s/ James S. Barnwell  
James S. Barnwell, Director  
Date: December 20, 2016.

/s/ Murray C. Gardner  
Murray C. Gardner, Director  
Date: December 20, 2016

/s/ Kevin K. Takata  
Kevin K. Takata, Director  
Date: December 20, 2016

/s/ Robert J. Inglima, Jr.  
Robert J. Inglima, Jr., Director  
Date: December 20, 2016

INDEX TO EXHIBITS

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31.3 Certification of Chief Financial Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002

99.1 Reserve Report Summary prepared by InSite Petroleum Consultants Ltd.

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101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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- (1) Incorporated by reference to Form 10-K for the year ended September 30, 2013.
  - (2) Incorporated by reference to Form 10-K for the year ended September 30, 2014.
  - (3) Incorporated by reference to the registration statement on Form S-1 originally filed by the Registrant January 29, 1957 and as amended February 15, 1957 and February 19, 1957.
  - (4) Incorporated by reference to Form 10-K for the year ended September 30, 1989.
  - (5) Incorporated by reference to Form 10-K for the year ended September 30, 1992.
  - (6) Incorporated by reference to the Registrant's Form 8-K filed on February 13, 2004 and previously listed as Exhibit 2.1 in Barnwell's Form 10-QSB for the quarterly period ended March 31, 2004.
  - (7) Incorporated by reference to the Registrant's Form 8-K filed on February 13, 2004 and previously listed as Exhibit 2.2 in Barnwell's Form 10-QSB for the quarterly period ended March 31, 2004.
  - (8) Incorporated by reference to Form 10-Q for the quarterly period ended June 30, 2009.
  - (9) Incorporated by reference to Form 10-Q for the quarterly period ended December 31, 2013.
  - (10) Incorporated by reference to Form 10-Q for the quarterly period ended March 31, 2015.
  - (11) Incorporated by reference to Form 10-Q for the quarterly period ended June 30, 2015.
  - (12) Incorporated by reference to Form 10-K for the year ended September 30, 2015.