BARNWELL INDUSTRIES INC
Form 10-K
December 20, 2016
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
(Mark One)
[X] 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.
o Yes x 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.
o Yes x 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. x Yes o 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).
x Yes o 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. o
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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

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: KD Kukio Resorts, LLLP KD Maniniowali, LLLP 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, 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, 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 Net Proved Producing Reserves Oil & NGL (MBbls)	Gas (MMcf)	Total Net Proved Reserves Oil & NGL (MBbls)	Gas (MMcf)	For the year ended September 30, 2016 Net Production Oil & NGL (Bbls)	Gas (Mcf)	Net Revenues 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 (Mcfe)	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.

	Developed Acreage*		Undeveloped Acreage*		Total	
Location	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

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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. Furthermore, we maintain an internet site at 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

Holders

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			
			Increase (Decrease)	
	2016	2015	$	%
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			
			Increase (Decrease)	
	2016	2015	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 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
ASSETS		
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
LIABILITIES AND EQUITY		
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:		
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:		
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 Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interests	Total Equity
Balance at September 30, 2014	8,277,160	$4,223,000	$1,315,000	$16,204,000	$(258,000)	$(2,286,000)	$747,000	$19,945,000
Contributions from non-controlling interests							120,000	120,000
Distributions to non-controlling interests							(728,000)	(728,000)
Net earnings				1,263,000			506,000	1,769,000
Share-based compensation			20,000					20,000
Foreign currency translation adjustments, net of taxes of $0					(873,000)			(873,000)
Retirement plans:								
Amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of $0					105,000			105,000
Net actuarial losses arising during the period, net of taxes of $0					(1,096,000)			(1,096,000)
Balance at September 30, 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 non-controlling interests							(866,000)	(866,000)
Net (loss) earnings				(3,615,000)			751,000	(2,864,000)
Share-based compensation			10,000					