

BARNWELL INDUSTRIES INC
Form 10-K
December 18, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 2014

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
(State or other jurisdiction of incorporation or organization)

72-0496921
(I.R.S. Employer Identification No.)

1100 Alakea Street, Suite 2900, Honolulu, Hawaii
(Address of principal executive offices)

96813-2833
(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
Common Stock, par value \$0.50 per share

Name of each exchange on which registered
NYSE MKT

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

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

Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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, 2014 (the last business day of the registrant's most recently completed second fiscal quarter) was \$12,451,000.

As of December 1, 2014 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 15, 2015 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
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.
Hualalai Investors	- Hualalai Common Equity Holdings, LLC and Hualalai Investors II, LLC, collectively
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
LIBOR	- London Interbank Offer Rate
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
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.

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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, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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. (referred to herein together with its subsidiaries as Barnwell, we, our, us or the Company) future performance, statements of Barnwell's plans and objectives and other similar statements. Forward-looking statements include phrases such as expects, anticipates, intends, plans, believes, predicts, estimates, assumes, projects, may, will, will be, should, or 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.

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ITEM 1. BUSINESS

Overview

Barnwell was incorporated in Delaware in 1956 and fiscal 2014 represented Barnwell's 58th year of operations. Barnwell operates in the following four principal business segments:

- *Oil and Natural Gas Segment* - Barnwell engages in oil and natural gas exploration, development, production, acquisition 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, exploration and development of oil and natural gas properties. Barnwell of Canada initiates and participates in exploratory 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 such 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 exploratory and developmental operations are overseen by Barnwell's Calgary, Alberta staff and Barnwell's Chief Operating Officer located in Honolulu, along with senior management. In fiscal 2014, Barnwell participated in exploratory and developmental operations in Alberta and Saskatchewan, although Barnwell does not limit its consideration of exploratory and developmental operations to these areas.

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.

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Strategy

Our business strategy is to maximize the value of existing oil and gas properties through efficient production supplemented by opportunistic asset divestitures. Shareholder value is created through the re-investment of proceeds from operations and divestitures into acquisition, exploration and development of conventional oil and natural gas reserves. Value creation investment opportunities compete internally for funding against other uses of proceeds such as general and administrative expenses, maintaining oil and natural gas properties, asset retirement expenditures and other corporate purposes. Our 2014 oil and natural gas segment strategy was focused on the following:

- **Selective divestitures of assets to improve operational focus, margins and decrease the Company's debt burden.** In fiscal 2014, we completed the sale of \$13.8 million of properties aimed at simplifying our portfolio of assets and generating cash proceeds for deleveraging and investment purposes.
- **Pursuing strategic acquisitions.** We intend to identify, assess and acquire additional acreage and producing assets to consolidate our existing operations and access new drilling and recompletion opportunities.
- **Maintaining financial flexibility.** As of September 30, 2014, Barnwell had a \$10.5 million dollar credit facility with Royal Bank of Canada, of which \$7.0 million was outstanding, and \$16.1 million in cash. This liquidity position, along with operational cash flows, will provide financial flexibility to pursue acquisitions.

Significant transactions in pursuit of achieving our business strategy for our oil and natural gas segment were as follows:

- In February 2014, Barnwell sold its interests in oil properties located in the Mantario area of Saskatchewan, Canada for \$2.7 million.
- In April 2014, Barnwell sold its interests in oil and natural gas properties located in the Chauvin, Cessford and Rat Creek areas of Alberta, Canada for \$4.6 million.
- In May 2014, Barnwell sold its interests in oil and natural gas properties located in the Boundary Lake area of Alberta and British Columbia, Canada for \$6.1 million.
- In fiscal 2014, Barnwell repaid \$5.0 million of the Royal Bank of Canada credit facility.

Key Property

Barnwell's principal oil and natural gas property is located in the Dunvegan area of Alberta, Canada and is called the Dunvegan Unit. Barnwell holds an 8.9% working interest in the Dunvegan Unit which, at September 30, 2014, had

220 producing natural gas wells. There were no wells drilled in the Dunvegan Unit in fiscal 2014.

In fiscal 2014, Dunvegan contributed 70% of Barnwell's net natural gas production, 89% of Barnwell's net natural gas liquids production and 1% of Barnwell's net oil production, representing approximately 57% of the Company's total net production on a Boe basis. In fiscal 2014, Dunvegan contributed 39% of Barnwell's oil and natural gas revenues.

Dunvegan's proved natural gas reserves represented 5,848,000 net Mcf or 62% of our total proved natural gas reserves as of September 30, 2014. Dunvegan's proved oil and natural gas liquids reserves represented 297,000 net Bbls or 41% of our total proved oil and natural gas liquids reserves as of September 30, 2014. In total, as of September 30, 2014, Dunvegan's reserves represented 55% of the Company's net reserves on an Mcfe basis.

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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 has been the Company's independent petroleum reserve engineers 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 five 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.

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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, 2014 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, 2014. All of our oil and natural gas reserves are located in Canada. These reserves are before deductions for indebtedness secured by the properties 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, 2013.

	September 30, 2014
Oil, including natural gas liquids (Bbls)	724,000
Natural gas (Mcf)	9,465,000
Total (Boe)	2,356,000

During fiscal 2014, Barnwell's total net proved developed reserves, including proved developed producing reserves, of oil and natural gas liquids decreased by 199,000 Bbls (22%) and total net proved developed reserves of natural gas decreased by 780,000 Mcf (8%). The decrease is primarily the result of the disposition of certain oil and natural gas properties in fiscal 2014 as decreases from production were largely offset by positive revisions of previous estimates.

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, 2014. 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 in the reporting period and current costs, after deducting all royalties, operating costs, future estimated capital expenditures (including abandonment costs), and income taxes.

Undiscounted future net cash flows, after income taxes	\$ 31,119,000
<u>Standardized measure of discounted future net cash flows</u>	<u>\$ 24,147,000*</u>

* 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 \$3.90 per Mcf and an oil price of \$82.57 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 2014, 2013 and 2012 was derived in Canada, primarily in Alberta. For a discussion regarding our

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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.

	2014	Year ended September 30, 2013	2012
Annual net production:			
Natural gas liquids (Bbls)	69,000	78,000	91,000
Oil (Bbls)	115,000	151,000	168,000
Natural gas (Mcf)	1,927,000	2,018,000	2,753,000
Total (Boe)	516,000	577,000	734,000
Total (Mcf)	2,996,000	3,349,000	4,258,000
Annual average sales price per unit of production:			
Bbl of natural gas liquids*	\$ 46.04	\$ 42.33	\$ 46.48
Bbl of oil*	\$ 80.40	\$ 80.27	\$ 83.83
Mcf of natural gas**	\$ 3.84	\$ 2.68	\$ 2.03
Annual average production cost per Boe produced***	\$ 16.32	\$ 16.39	\$ 13.25
Annual average production cost per Mcfe produced***	\$ 2.81	\$ 2.83	\$ 2.28

* 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 \$2,282,000 in oil and natural gas properties during fiscal 2014, including accrued capital expenditures and excluding additions and revisions to estimated asset retirement obligations, of which \$42,000 (2%) was for acquisition of oil and natural gas leases, \$884,000 (39%) was for exploration costs and \$1,356,000 (59%) was for development of oil and natural gas properties.

Capital expenditures totaled \$765,000 in the Mantario area of Saskatchewan in fiscal 2014. Two gross (1.2 net) oil wells were drilled in fiscal 2014, however both wells were part of oil assets that were sold in February 2014.

Capital expenditures totaled \$238,000 in the Virgo area of Alberta in fiscal 2014. Upgrades to facilities and pipelines and servicing of several wells were performed by Barnwell in order to bring older wells back on production.

Well Drilling Activities

During fiscal 2014, Barnwell participated in the drilling of four development wells, two of which were sold and two of which management believes are capable of production. Barnwell did not participate in the drilling of any exploratory wells.

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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, 2014, 2013 and 2012 in which Barnwell participated. All wells 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.
2014										
Gross	-	2.0	-	2.0	-	4.0	-	-	-	4.0
Net	-	1.2	-	0.4	-	1.6	-	-	-	1.6
2013										
Gross	-	6.0	-	-	-	6.0	1.0	1.0	1.0	7.0
Net	-	0.8	-	-	-	0.8	1.0	0.5	1.0	1.3
2012										
Gross	1.0	5.0	-	-	1.0	5.0	-	2.0	1.0	7.0
Net	0.5	1.2	-	-	0.5	1.2	-	1.3	0.5	2.5

At September 30, 2014, Barnwell was not in the process of drilling any oil or natural gas wells.

Productive Wells

As of September 30, 2014, Barnwell had interests in 460 gross (62.1 net) productive wells, of which 120 gross (19.2 net) were oil wells and 340 gross (42.9 net) were natural gas wells. Eight 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, 2014.

Location	Developed Acreage*		Undeveloped Acreage*		Total*	
	Gross	Net	Gross	Net	Gross	Net
Canada	230,685	37,397	131,081	37,508	361,766	74,905

* 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.

Forty percent of Barnwell's undeveloped acreage is not subject to expiration at September 30, 2014. The 60% of Barnwell's leasehold interests in undeveloped acreage subject to expiration expire over the next four fiscal years, if not developed, as follows: 12% expire during fiscal 2015; 25% expire during fiscal 2016; 20% expire during fiscal 2017; and 3% expire during fiscal 2018. There can be no assurance that Barnwell will be successful in renewing its leasehold interests in the event of expiration.

Barnwell's undeveloped acreage includes concentrations in the Dunvegan (7,721 net acres) and Thornbury (5,919 net acres) areas 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.

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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 2014 and 2013, 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 2014, over 90% 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.

Ninety-three percent 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.

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Under the 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 fiscal 2014 and 2013, 76% and 74%, respectively, of royalties related to Alberta government charges and 24% and 26%, respectively, of royalties related to freehold, override and other charges which are not directly affected by the ARF.

In fiscal 2014, the weighted-average royalty rate paid on all of Barnwell's natural gas was 10% and the weighted-average royalty rate paid on oil was 27%.

The Alberta Energy Regulator (AER) revised its Licensee Liability Rating (LLR) program in fiscal 2013 to incorporate revised abandonment and reclamation cost estimates and adjusted asset values to reflect revised netbacks, gas shrinkage and oil equivalent volumes. The changes are effective in accordance with a three year implementation plan, as detailed by the AER, with the last of the three updates effective May 2015. 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. Companies with a LMR less than 1.0 are required to deposit funds with the AER to cover future deemed liabilities. At September 30, 2014, the Company had sufficient deemed asset value that no security deposit was due. 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.

Additionally, in July 2014, the AER introduced an Inactive Well Compliance Program which will result in the acceleration of expenditures to suspend and/or abandon long-term inactive wells. Under the program all inactive wells that are noncompliant as of April 1, 2015 need to be brought into compliance within five years, in increments of 20 percent per year.

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% controlling 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 approximately 870 acres of the

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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.

On November 27, 2013, Barnwell, through a wholly-owned subsidiary, entered into two limited liability limited partnerships, KD Kona 2013 LLLP and KKM Makai, LLLP, and indirectly acquired a 19.6% non-controlling ownership interest in each of KD Kukio Resorts, LLLP, KD Maniowali, LLLP and KD Kaupulehu, LLLP. These land development partnerships own certain real estate and development rights interests in the Kukio, Maniowali 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 the aforementioned percentage of sales payments.

Kaupulehu 2007, a Hawaii limited liability limited partnership 80%-owned by Barnwell, owned two residential parcels in the Kaupulehu area at September 30, 2014. One residential parcel is being held for speculative purposes and is not expected to be sold within a year of the balance sheet date. In September 2014, Kaupulehu 2007 entered into a contract to sell the other residential parcel, which closed on October 13, 2014. See Residential Real Estate Segment for a discussion of Kaupulehu 2007's luxury residence 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 Kaupulehu 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 Kaupulehu. In 2004 and 2006, Kaupulehu Developments transferred its leasehold interest in Kaupulehu Lot 4A Increment I and Increment II and received closing payments of \$11,550,000 and \$10,000,000, respectively. These transactions were 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 and a beach club on the portion of the property bordering the Pacific Ocean. The lots within Increment I consist of two phases. Phase I consists of 38 completed single-family lots (23 ocean front lots and 15 ocean view lots) and Phase II is planned for 42 single-family lots. The developer released and began marketing a portion of the 42 single-family lots in Phase II in 2012. 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 approximately two to three acres in size fronting the ocean are currently being developed within Increment II by KD II, and the remaining acreage within Increment II is not yet under development.

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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 2014, three single-family lots in Increment I were sold bringing the total amount of gross proceeds from single-family lot sales through September 30, 2014 to \$161,000,000. As of September 30, 2014, 32 of the 38 single-family lots in Phase I of Increment I and three of the 42 single-family lots in Phase II of Increment I have been sold.

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.

Barnwell's non-controlling ownership interest in the Kukio Resort land development partnerships provides for a priority return of Barnwell's investment prior to profit distributions. Net profits, losses and cash flows of the partnerships are allocated to Barnwell and the other partners at varying percentages based on whether the initial and any additional capital contributions have been repaid to the investors.

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 one Spencer-Harris portable rotary drilling rig, an IDECO H-35 rotary drilling/workover rig, two GEFCO SS-40-T portable rotary drilling rigs, a National T-32 drilling rig and other ancillary drilling equipment. Water Resources also owns and operates one Walker Neer P-15-A and one Franks double drum service rig for deep set pump removal, installations and repairs. 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 acre equipment storage yard in Waimea, Hawaii, and maintains an inventory of drilling materials and pump supplies.

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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 2014, Water Resources started three well drilling and six pump installation and repair contracts and completed four well drilling and nine pump installation and repair contracts. One of the four well drilling and three of the nine pump installation and repair contracts were started in the prior year. Twenty-four percent of well drilling and pump installation and repair jobs, representing 3% of total contract drilling revenues in fiscal 2014, have been pursuant to government contracts.

At September 30, 2014, there was a backlog of three well drilling and five pump installation and repair contracts, of which one well drilling and two pump installation and repair contracts were in progress as of September 30, 2014.

The approximate dollar amount of Water Resources' backlog of firm well drilling and pump installation and repair contracts at December 1, 2014 and 2013 was as follows:

	December 1,	
	2014	2013
Well drilling	\$ 2,700,000	\$ 6,200,000
Pump installation and repair	500,000	600,000
	\$ 3,200,000	\$ 6,800,000

All of the contracts in backlog at December 1, 2014 are expected to be completed within fiscal year 2015.

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 2014 will continue.

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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. During fiscal 2012, one of the homes developed by Kaupulehu 2007 was sold. At September 30, 2014, Kaupulehu 2007 owned one luxury residence that is available for sale and did not have any homes under construction. This home is a 5-bedroom, 6.5-bath ranch-style home and is 6,275 square feet in size. Construction of additional homes will depend upon the timing and extent of changes in market conditions and the ability of the Company to obtain financing for such projects.

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 newcomer and 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 12 in the Notes to Consolidated Financial Statements in Item 8 contains information on our segments and geographic areas.

Employees

At December 1, 2014, Barnwell employed 38 individuals; 37 on a full time basis and 1 on a part time basis.

Environmental Costs

Barnwell is subject to extensive environmental laws and regulations. Federal, state, and Canadian 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.

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.

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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. 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

Future economic conditions and volatility in prices for natural gas and oil may have impacts on our business and financial condition that we currently cannot predict.

Modest and unsteady economic growth from the global financial crisis and recession that began in 2008 continues to affect the demand for luxury real estate and water well drilling and pump installation services in Hawaii. Additionally, the discovery and availability of natural gas and more recently oil from shale has resulted in an oversupply of natural gas and oil in North America contributing to a decline in prices as compared to years past. Absent a sufficient increase in natural gas and/or oil prices, it is unlikely that future oil and natural gas operating cash flows will be sufficient to fund the capital expenditure levels necessary to maintain current production and reserve levels over the long term in the absence of favorable offsetting factors or cash inflows from other sources.

If Barnwell's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to the Company. Inability to access sufficient capital and credit, in combination with insufficient operating

cash flows and land investment sales proceeds, will result in continuing decreases in oil and natural gas reserves that in turn will result in a decline in cash flows from oil and natural gas production to amounts that are insufficient to cover ongoing expenses and debt service requirements.

Our future level of indebtedness and the terms of our financing arrangements may adversely affect our operations, financial condition and limit our growth.

At September 30, 2014, we had borrowings under our credit facility and real estate loan of approximately \$11.1 million. In the ordinary course of business, we may incur significant additional debt in order to fund future capital expenditures, acquisitions and homebuilding activities.

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The terms of our credit facility and real estate loan impose restrictions on our ability and, in some cases, the ability of our subsidiaries to take a number of actions that we may otherwise desire to take, including one or more of the following:

- incurring additional debt, including guarantees of indebtedness;
- making investments;
- creating liens on our assets; and
- selling assets.

Our level of indebtedness and the covenants contained in our financing agreements could have important consequences. For example, they could:

- limit our ability to obtain future financing, through equity offerings or debt financings, for working capital, capital expenditures, acquisitions, refinancing of indebtedness or general corporate and other activities;
- require us to dedicate a substantial portion of our cash flow from operations to service our debt, thereby reducing our ability to use our cash flow for other purposes (i.e., working capital, capital expenditures, and other general business activities);
- limit our flexibility in planning for, or reacting to, the changes in our business;
- subject us to higher costs and more restrictive covenants in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes, if additional financing is obtained;
- make us vulnerable to increases in interest rates as our credit facilities are subject to variable interest rates;
- detract from our ability to successfully withstand a downturn in our business or the economy generally;
- place us at a competitive disadvantage because we have more debt than some of our competitors; and
- make us more vulnerable to general economic downturns and adverse developments in our industries, especially declines in oil and natural gas prices, and the economy in general.

We may incur additional debt, including significant secured indebtedness, or issue additional stock in order to fund capital expenditures, make future acquisitions, and develop our properties. A higher level of indebtedness increases the risk that we may default on our obligations. Our ability to meet our debt obligations and to reduce our level of indebtedness depends on our future performance. General economic conditions, oil and natural gas prices and financial, business and other factors affect our operations and our future performance. Many of these factors are beyond our control. Factors that will affect our ability to raise cash through a refinancing of our debt include financial market conditions, the value of our assets and our performance at the time we need capital.

In addition, our Canadian revolving credit facility is subject to periodic redetermination and renewal. In April 2014, the aggregate principal amount of the revolving credit facility was decreased from \$20,000,000 Canadian dollars to

\$11,800,000 Canadian dollars, partially due to the decrease in security resulting from sales of oil and natural gas properties in fiscal 2014. A further decrease in the facility could require us to repay indebtedness in excess of the borrowing base, or we may need to further secure the lenders with additional collateral. If we do not have sufficient funds for repayment, available assets for collateral or the ability to arrange new financing, we may have to sell significant assets. Any such sale could have a material adverse effect on our business and financial results.

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Furthermore, our real estate loan agreement contains provisions requiring us to maintain compliance with a consolidated debt service coverage ratio of not less than 1.20 to 1 and a consolidated total liabilities to tangible net worth ratio not to exceed 1.85 to 1. Noncompliance with either of these ratios could result in the need to pay down all or a portion of the outstanding borrowings before the scheduled due date.

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; and
- analysts' estimates and other events in the oil and natural gas industry.

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.

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.

A small number of stockholders, including our executive officers, 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, 2014, four of our stockholders, including two of our executive officers, 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.

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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, and the levels of interest rates.

Risks Related to Oil and Natural Gas Segment

Successful re-investment of proceeds from the sale of oil and natural gas properties is needed in order to replace production and reserves of the properties sold.

It is uncertain whether future acquisition and development activities will result in additional proved reserves or that we will be able to drill productive wells at acceptable costs. Future oil and gas production is, therefore, highly dependent upon our level of success in acquiring or finding additional reserves on an economic basis. Furthermore, if oil or natural gas prices increase, our cost for additional reserves could also increase. The amount of funding available for investment activities is also uncertain.

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.

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

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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.

Oil and natural gas prices are volatile. Our results of operations and financial condition are highly dependent on the prices of and demand for our oil and natural gas production.

Oil and natural gas prices are volatile and have fluctuated widely during recent years in response to many factors that are beyond our control. These factors include, but are 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. Any decline in oil or natural gas prices may 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 development of oil and natural gas reserves and future growth.

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.

Additionally, we follow the full cost method of accounting for costs related to our oil and natural gas properties. Under this method, the net book value of properties less related deferred income taxes, may not exceed a calculated ceiling, which is based upon the estimated after tax discounted future net cash flows from proved oil and natural gas properties. The excess, if any, of the net book value above the ceiling is required to be written off as an expense. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates for further details. A sufficient decline in oil or natural gas prices or other factors, without other mitigating circumstances, could result in future reductions of the carrying value of our oil and natural gas properties and an equivalent charge to earnings.

An increase in operating costs or a decline in our production level 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 margin and cash flow.

The level of production from our existing properties may decline at rates greater than anticipated due to unforeseen circumstances, many of which are beyond our control. A significant decline in our production could result in materially lower revenues and cash flow.

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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 or the plan for development and production at non-operated properties, 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.

We are dependent upon future discoveries or acquisitions of oil and natural gas to maintain our reserves.

We actively explore for oil and natural gas reserves. However, future exploration and drilling results are uncertain and may involve substantial costs. Despite this uncertainty or potential cost, discoveries or acquisitions of additional reserves are needed to avoid a material decline in reserves and production. As a result, future oil and natural gas reserves may be dependent on our success in exploiting existing properties and acquiring additional reserves. If our access to capital becomes limited or unavailable, our ability to make the necessary capital investments to maintain or expand our oil and natural gas reserves will be impaired. Additionally, we cannot guarantee that we will be successful in developing additional reserves or acquiring additional reserves on terms that meet our investment objectives. Without these reserve additions, our reserves will deplete and as a consequence, either production from, or the average reserve life of, our properties will decline.

Future oil and natural gas segment taxable income could vary significantly from estimates, which could in turn result in the inability to realize a portion or all of our deferred tax assets for which no valuation allowance has

been provided.

Our deferred tax assets include liabilities accrued for books but not for tax under Canadian tax law. Our ability to realize these deferred tax assets is based upon the assumption of continuing oil and gas drilling and acquisition activity in the future and continuity of the oil and natural gas segment as a going concern in Canada. If new operational strategies and estimates of oil and natural gas drilling and reserve acquisition success do not materialize as planned, or if negative evidence of future realizability cannot be overcome despite our plans and estimates, some or all of these deferred tax assets would not be deemed realizable, which in turn could have a material adverse effect on our financial condition and results of operations.

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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 our distributions.

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 industry 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,

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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.

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.

For wells and facilities in the Province of Alberta, the Alberta Energy Regulator (AER) tracks each licensee's deemed asset value and estimated abandonment and reclamation liabilities, and imposes a security deposit on operators whose estimated liabilities exceed their deemed asset value. At September 30, 2014, the Company had sufficient deemed asset value that no security deposit was due. 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. Additionally, in July 2014, the AER introduced an Inactive Well Compliance Program which will result in the acceleration of expenditures to suspend and/or abandon long-term inactive wells.

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.

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We may have difficulty funding our planned capital expenditures, which could have an adverse effect on our business.

We make and expect to continue to make capital expenditures in our exploration and development projects. Without adequate capital resources, our drilling and other activities may be limited and our business, financial condition and results of operations may suffer. We may not be able to generate sufficient operating cash flows or secure necessary financing on reasonable terms or at all and financing may not continue to be available to us under our existing financing arrangements. If capital resources are unavailable, we may be forced to curtail our drilling, development and other activities or be forced to sell some of our 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.

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. In fiscal 2014, we derived 75% of our revenues from operations in Canada.

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.

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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

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

The market value of residential lots can fluctuate significantly as a result of changing economic market conditions. Economic conditions in the United States and the world have improved in recent years but the recovery remains relatively weak, which puts continued pressure on consumer confidence for residential real estate. These challenging market conditions are expected to continue for the foreseeable future and may deteriorate. Prevailing market conditions may significantly influence the market value of our residential parcel held for investment. In the event of changes in economic or market conditions, we may have to sell the residential lot at a lower margin or at a loss, or we may be required to write-down the carrying value of our residential parcel held for investment. Such write-down would have a negative impact on our results of operations.

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 our 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.

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We may be required to write-down the carrying value of our investment in land development partnerships if our assumptions about future lot sales and profitability prove incorrect.

In analyzing the value of our investment in 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.

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.

Receipt of future percentage of sales payments is dependent upon the developer's continued efforts to develop and market the property.

We are entitled to receive future payments based on a percentage of the sales prices of residential homes and lots within approximately 870 acres in 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 homes and lots. 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 could be jeopardized if the developer fails to proceed with development and marketing of the property.

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 and KD II. If any such performance bonds are called, we may be obligated to reimburse the issuer of the performance bond as Barnwell, KD I, KD II 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.

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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.

If required land use entitlements are not obtained at reasonable costs, or at all, our operating results could be adversely affected.

We hold the leasehold interest to approximately 1,000 acres of vacant land that is currently zoned conservation. Our success in selling this interest may be contingent upon obtaining the necessary reclassification from the State of Hawaii Land Use Commission and county of Hawaii. Obtaining the necessary reclassification and ministerial approvals is often difficult, costly and may take several years, or more, to complete. Delays or failures to obtain the necessary reclassification approvals may adversely affect our financial results.

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. 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.

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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.

Risks Related to Residential Real Estate Segment

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

Economic conditions in the United States and the world have improved in recent years but the recovery remains weak, which puts continued pressure on consumer confidence for residential real estate. These challenging market conditions are expected to continue for the foreseeable future and these conditions may deteriorate. Prevailing market conditions significantly influence the market value of our real estate held for sale. If the market conditions deteriorate, we will be required to write-down the carrying value of our real estate held for sale. Such write-downs would have a negative impact on our results of operations.

We are reliant upon the sale of our home as a source of liquidity. If we are unable to sell the home within a reasonable timeframe, our operating results, cash inflows and financial condition could be materially impacted.

Barnwell currently owns one luxury residence that is available for sale in the Lot 4A Increment I area of Kaupulehu, North Kona, Hawaii.

Any unpaid principal balance and accrued interest on our real estate loan is due and payable on April 1, 2018. Monthly payments of principal and interest on the related real estate loan are due on the first day of each month and will change as a result of a change in the interest rate, the sale of the house or the sale of a residential parcel. Upon the sale of the house or a residential parcel, we will be required

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to make a principal payment in the amount of the net sales proceeds of the house or residential parcel. Absent the sale of the house or the ability to refinance, the balloon payment on the debt will need to be repaid using other operating cash flows which could negatively impact other business segments.

The inability to sell the home within a reasonable timeframe will lead to additional interest, maintenance, property taxes and other holding costs. Furthermore, if estimated cash inflows from the home sale is less than current expectations, our operating results, cash inflows and financial condition could be materially impacted.

Severe weather and other natural conditions or disasters may impair the value of our real estate property.

Severe weather and other natural conditions or disasters, such as, but not limited to, earthquakes, landslides, hurricanes, tornadoes, tsunamis, volcanic activity, droughts, floods, and heavy or prolonged rain, can negatively affect our operations by requiring us to perform potentially costly repairs to our projects. Further, these conditions can delay home closings, adversely affect the cost or availability of materials or labor, or impair the value of the property on a temporary or permanent basis. To the extent our insurance is not adequate to cover business interruption losses or repair costs resulting from these events, our total earned revenues and earnings may be adversely affected.

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 it utilizes as its New York office.

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.

Table of Contents**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, 2012	\$3.50	\$3.05	December 31, 2013	\$3.65	\$3.00
March 31, 2013	\$3.64	\$3.00	March 31, 2014	\$3.60	\$2.75
June 30, 2013	\$3.89	\$2.99	June 30, 2014	\$3.46	\$2.96
September 30, 2013	\$3.71	\$3.00	September 30, 2014	\$3.21	\$2.57

Holder

As of December 1, 2014, there were 8,277,160 shares of common stock, par value \$0.50, outstanding. There were approximately 1,151 holders of the common stock of the registrant as of December 1, 2014.

Dividends

No dividends were declared or paid during fiscal years 2014 or 2013. 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.

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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, 2014 and 2013, and the related Consolidated Statements of Operations, Comprehensive Loss, Cash Flows, and Equity for the years ended September 30, 2014 and 2013. 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 in the reporting period on a constant basis, 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

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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 9.8% 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 2014, the ceiling limitation would have decreased approximately \$1,814,000 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 2014, depletion for fiscal 2014 would have increased by approximately \$277,000.

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.

Real Estate and Investment Held for Sale and Investment in Residential Parcel

Policy Description

Real estate held for sale and investment in residential parcels 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

Real estate held for sale and investment in residential parcels 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 real estate held for sale and investment in residential parcels are written down to its 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.

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Equity Method Investments

Policy Description

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 an 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

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evidence when assessing the realizability of deferred tax assets including historic and estimated future taxable earnings and available tax planning strategies. Accordingly, changes in our business performance, unforeseen events, and changes in estimates of future taxable income 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

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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 2014 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 2014 expenses before taxes by approximately \$325,000.

Overview

Barnwell is engaged in the following lines of business: 1) exploring for, developing, acquiring, 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, exploration and development of oil and natural gas properties in Canada where we initiate and participate in exploratory 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 such 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. Petroleum 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% controlling interest in Kaupulehu Developments, a Hawaii general partnership, 75% controlling interest in KD Kona 2013 LLLP, a Hawaii limited liability limited

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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 payments from KD I and KD II, resulting from the sale of lots and/or residential units within approximately 870 acres of the Kaupulehu Lot 4A area, located approximately six miles north of the Kona International Airport in the North Kona District of the island of Hawaii, adjacent to Hualalai Resort at Historic Ka`upulehu, between the Queen Kaahumanu Highway and the Pacific Ocean, by KD I and KD II in two increments (Increment I and Increment II). Increment I is an area zoned for approximately 80 single-family lots and a beach club on the portion of the property bordering the Pacific Ocean, and is partially developed. 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 approximately two to three acres in size fronting the ocean are currently being developed within Increment II by KD II, and the remaining acreage within Increment II is not yet under development.

- An indirect 19.6% non-controlling ownership interest in each 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.

- 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.

2) Barnwell owns an 80% controlling interest in Kaupulehu 2007, a Hawaii limited liability limited partnership. At September 30, 2014, Kaupulehu 2007 owned two residential parcels in the Kaupulehu area. One residential parcel is being held for speculative purposes and is not expected to be sold within a year of the balance sheet date. In September 2014, Kaupulehu 2007 entered into a contract to sell the other residential parcel, which closed on October 13, 2014.

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 two parcels described above, owns a luxury residence in the Kaupulehu area that is available for sale. Kaupulehu 2007 does not currently have any homes under construction.

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Investment in Joint Ventures

On July 25, 2014, Kaupulehu Investors, LLC, a limited liability company 80%-owned by Barnwell, sold its 1.5% passive minority interests in the Hualalai Resort and the Kona Village Resort to an independent third party for \$3,399,000, of which \$679,000 relates to non-controlling interests. Barnwell previously wrote off its investment in the Hualalai Resort due to its other-than-temporary decline in fair value and in Kona Village Resort as a result of the March 2011 tsunami which caused the resort to shut down indefinitely.

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. Current global economic conditions differentiate recent times from years past and continue to impact all of the Company's segments in both Hawaii and Canada.

Oil and Natural Gas Segment

Historically, oil and natural gas prices have been highly volatile. Demand for natural gas also changes from season to season.

Extreme winter conditions in the U.S. and Canada increased the demand for natural gas during the winter months of fiscal 2014, which resulted in a reduction of the natural gas inventories in North America and increased natural gas prices. The outlook for natural gas prices, however, is uncertain due to the increasing production of natural gas from shale in North America.

Marginal increases in Canadian oil prices in fiscal 2014 over 2013 are due to additional refinery capacity for Canadian oil in the U.S., expanded pipelines and increased transportation from Canada to the U.S. of crude by rail, all of which contributed to the decrease in the differential between the prices received for Canadian oil as compared to global benchmark prices. However, the continued reduced level of demand for oil, coupled with the significant increase in North American oil production, is expected to continue and oil prices will remain volatile in the near term and may be affected by economic growth figures, political instability, supply and pipeline capacity constraints.

Future acquisition and development activities are planned for fiscal 2015 to re-invest the proceeds from the sales of oil and natural gas properties that occurred in fiscal 2014.

Land Investment and Residential Real Estate Segments

Kaupulehu 2007 s luxury home is a 5-bedroom, 6.5-bath ranch-style home, 6,275 square feet in size and is available for sale. Barnwell will have continuing cash outflows such as debt repayments, interest, maintenance, property taxes, and other holding costs until the home and the lot held for investment are sold.

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, we do not control or determine when or if the remainder of Increment I or Increment II will be developed. If real estate activity in the Kaupulehu area does not continue to improve or does not improve sufficiently, our operating results, financial condition, liquidity and cash flows could be adversely affected.

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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. The most recent State of Hawaii Department of Business, Economic Development and Tourism forecast suggests growth in the construction industry with increases in private development more than offsetting decreases in government contracts. Management currently estimates that well drilling activity for fiscal 2015 will decrease slightly as compared to fiscal 2014 based upon the value of contracts in backlog.

Results of Operations

Summary

Net earnings attributable to Barnwell for fiscal 2014 totaled \$672,000, a \$9,235,000 increase in operating results from a net loss of \$8,563,000 in fiscal 2013. The following factors affected the results of operations for the current fiscal year as compared to the prior fiscal year:

- There was a reduction of the carrying value of oil and natural gas properties of \$4,506,000, before taxes, in the prior fiscal year and there was no such reduction in the current fiscal year;
- A \$3,399,000 gain on sale of investment, before non-controlling interests' share of such gain and before taxes, in the current year period from the sale of the 1.5% interests in Hualalai Resort and Kona Village Resort;
- A \$2,066,000 increase in oil and natural gas segment operating profit, before the prior year reduction in carrying value of assets and taxes, primarily resulting from higher prices received for all products;
- A \$1,247,000 increase in contract drilling operating results, before taxes, primarily resulting from increased water well drilling activity;

- A \$354,000 increase in land investment segment operating profit, before income taxes and non-controlling interests share of such profits, as there were increased percentage of sales receipts in the current year; and
- A \$271,000 foreign currency transaction gain in the current year due to the repayment of the U.S. dollar denominated credit facility using Canadian dollars.

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 6% in fiscal 2014, as compared to fiscal 2013, and the exchange rate of the Canadian dollar to the U.S. dollar

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decreased 8% at September 30, 2014, as compared to September 30, 2013. 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 loss. Other comprehensive loss due to foreign currency translation adjustments, net of taxes, for fiscal 2014 was \$2,009,000, a \$690,000 change from other comprehensive loss due to foreign currency translation adjustments, net of taxes, of \$1,319,000 in fiscal 2013. There were no taxes on other comprehensive loss due to foreign currency translation adjustments in fiscal 2014 and 2013 due to a full valuation allowance on the related deferred tax assets.

*Oil and natural gas revenues*Selected Operating Statistics

The following tables set forth Barnwell's annual average prices per unit of production and annual net production volumes for fiscal 2014 as compared to fiscal 2013. Production amounts reported are net of royalties.

	2014	2013	Annual Average Price Per Unit	
			Increase (Decrease)	
			\$	%
Natural gas (Mcf)*	\$ 3.84	\$ 2.68	\$ 1.16	43%
Oil (Bbls)	\$ 80.40	\$ 80.27	\$ 0.13	0%
Liquids (Bbls)	\$ 46.04	\$ 42.33	\$ 3.71	9%

	2014	2013	Annual Net Production	
			Increase (Decrease)	
			Units	%
Natural gas (Mcf)	1,927,000	2,018,000	(91,000)	(5%)
Oil (Bbls)	115,000	151,000	(36,000)	(24%)
Liquids (Bbls)	69,000	78,000	(9,000)	(12%)

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

Oil and natural gas revenues decreased \$1,078,000 (5%) from \$21,376,000 in fiscal 2013 to \$20,298,000 in fiscal 2014, primarily due to decreases in net production partially offset by higher prices for all products.

Production was impacted by divestitures of certain oil and natural gas properties in fiscal 2014 as well as by natural declines in production from older properties. The divestiture of properties resulted in decreased natural gas and oil production of 64,000 Mcf and 26,000 Bbls, respectively, in fiscal 2014 as compared to fiscal 2013. The decrease in net natural gas liquids production was primarily due to natural declines in production as the decrease attributable to divested assets was insignificant.

The decrease in natural gas production due to divestitures and natural declines in production was partially offset by the fact that there was no Dunvegan plant and pipeline maintenance shutdown in the current fiscal year while there was in the prior year period. The shutdown reduced prior year net natural gas production by approximately 74,000 Mcf and net natural gas liquids production by approximately 4,000 Bbls.

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Net natural gas production in the prior fiscal year was further reduced by approximately 200,000 Mcf due to an adjustment of natural gas royalty allowances by the Government of Alberta, related mainly to non-operated properties, however higher royalty rates in the current year due to higher natural gas prices, as compared to the same period in the prior year, largely offset this adjustment.

Oil and natural gas operating expenses

Oil and natural gas operating expenses decreased \$1,078,000 (11%) to \$8,914,000 in fiscal 2014, as compared to \$9,992,000 in fiscal 2013. The decrease was primarily due to \$796,000 of estimated costs incurred in the prior year to remediate soil contamination from infrastructure issues at the Dunvegan and Wood River properties, a 6% decrease in the average exchange rate of the Canadian dollar to the U.S. dollar that decreased oil and natural gas operating expenses \$589,000 from that of the prior year and lower volumes produced. These decreases were partially offset by increased repair and maintenance costs in the current year which are trending higher as the average age of our properties increases and a decrease in equalization credits received from non-operated properties of \$392,000 for previously allocated operating expenses. Oil and natural gas operating expenses generally increase over time on a per unit basis as properties age and as more remedial repairs and maintenance are required.

Sale of interest in leasehold land

Kaupulehu Developments is entitled to receive a percentage of the gross receipts from the sales of single-family residential lots in Increment I from KD I, a land development partnership 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 a 2004 transaction where Kaupulehu Developments sold its leasehold interest in Increment I to KD I, which was prior to Barnwell's affiliation with KD I on November 27, 2013, the acquisition date of our ownership interest in the Kukio Resort land development partnerships.

In November 2013, Barnwell received a percentage of sales payment of \$140,000 from KD I relating to the sale of one lot in Increment I. Subsequent to the acquisition of ownership interests in the Kukio Resort land development partnerships, Barnwell received percentage of sales payments totaling \$600,000 from KD I for the sale of two lots in Increment I.

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

	Year ended September 30,	
	2014	2013
Sale of interest in leasehold land:		
Proceeds	\$ 740,000	\$ 300,000
Fees	(104,000)	(18,000)
Revenues sale of interest in leasehold land, net	\$ 636,000	\$ 282,000

KD I sold three single-family lots in Increment I during the year ended September 30, 2014 as compared to one single-family lot in Increment I during the year ended September 30, 2013.

As of September 30, 2014, 32 of the 38 single-family lots in Phase I of Increment I have been sold by KD I and the remaining six lots were sold in October 2014. Forty-two single-family lots are planned for Phase II of Increment I, for a total of 80 single-family lots planned for Increment I. The developer released and began marketing a portion of the 42 single-family lots in Phase II of Increment

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I, and as of September 30, 2014, three of the lots have been sold. It is uncertain when or if KD I will complete the remaining single-family lots in Phase II of Increment I and there is no assurance with regards to the amounts of future sales from Increment I.

In October 2014, Kaupulehu Developments received percentage of sales payments totaling \$1,200,000 from the sale of six lots within Phase I of Increment I and two lots within Phase II of Increment I.

Contract drilling

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

Contract drilling revenues increased \$3,949,000 (169%) to \$6,287,000 in fiscal 2014, as compared to \$2,338,000 in fiscal 2013, and contract drilling costs increased \$2,787,000 (124%) to \$5,026,000 in fiscal 2014, as compared to \$2,239,000 in fiscal 2013. The contract drilling segment generated a \$952,000 operating profit before general and administrative expenses during fiscal 2014, an increase in operating results of \$1,247,000 as compared to an operating loss before general and administrative expenses of \$295,000 in fiscal 2013. The increase in operating results was primarily due to increased water well drilling activity in the current year as compared to the prior year due to work on an unusually large well drilling contract for multiple wells in the current year.

At September 30, 2014, there was a backlog of three well drilling and five pump installation and repair contracts, of which one well drilling and two pump installation and repair contracts were in progress as of September 30, 2014. The backlog of contract drilling revenues as of December 1, 2014 was approximately \$3,200,000. All of the contracts in backlog at December 1, 2014 are expected to be completed within fiscal year 2015.

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. Although the Company has experienced a recent increase in water well drilling activity, it 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.

Gain on sale of investments

On July 25, 2014, Kaupulehu Investors, LLC, a limited liability company 80%-owned by Barnwell, sold its 1.5% passive minority interests in the Hualalai Resort and the Kona Village Resort to an independent third party for \$3,399,000. As previous write downs reduced the carrying value of the investments to zero, Barnwell recognized a \$3,399,000 gain on this transaction, of which \$679,000 relates to non-controlling interests. Kaupulehu Investors, LLC's capital and operating cash call investments in the Hualalai Resort and the Kona Village Resort prior to the sale totaled \$3,193,000.

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Gas processing and other

Included in gas processing and other income are foreign currency transaction gains of \$271,000 for the year ended September 30, 2014 from the repayment of U.S. dollar denominated debt using Canadian dollars. There was no such gain in the prior year.

General and administrative expenses

General and administrative expenses decreased \$885,000 (10%) to \$8,026,000 in fiscal 2014, as compared to \$8,911,000 in fiscal 2013. The decrease was primarily due to the fact that general and administrative expenses in the current year period included a \$380,000 reduction in share-based compensation expense resulting from a decline in the market price of the Company's stock, as compared to a \$73,000 reduction in share-based compensation expense in the prior year and a \$370,000 decrease in retirement plan expense due primarily to an increase in the discount rate.

Depletion, depreciation, and amortization

Depletion, depreciation and amortization decreased \$2,151,000 (25%) to \$6,391,000 in fiscal 2014, as compared to \$8,542,000 in fiscal 2013. The decrease was due to an 11% decrease in the depletion rate as a result of the recent divestiture of certain oil and natural gas properties, an 11% decrease in net production and a 6% decrease in the average exchange rate of the Canadian dollar to the U.S. dollar.

Reduction of carrying value 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 December 31, 2012 and March 31, 2013. As such, Barnwell reduced the carrying value of its oil and natural gas properties by \$4,506,000 during the year ended September 30, 2013. No such reduction was necessary during the year ended September 30, 2014.

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.

Interest expense

Interest expense increased \$77,000 (13%) to \$664,000 in fiscal 2014, as compared to \$587,000 in fiscal 2013, primarily due to the increase in average outstanding debt balances and average interest rates as a result of the land investment loan which Barnwell obtained on November 27, 2013, which was paid in full on September 25, 2014.

Equity in loss of affiliates

On November 27, 2013, Barnwell, through a wholly-owned subsidiary, entered into two limited liability limited partnerships, KD Kona 2013 LLLP and KKM Makai, LLLP, and indirectly acquired a 19.6% ownership interest in each KD Kukio Resorts, LLC, KD Maniniowali, LLC and KD Kaupulehu, LLC for \$5,140,000. Barnwell's investment in these entities is accounted for using the equity method of accounting. Barnwell was allocated partnership losses of \$482,000 during fiscal 2014.

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

	Year ended September 30,	
	2014	2013
United States	\$ (629,000)	\$ (4,832,000)
Canada	1,905,000	(5,228,000)
	\$ 1,276,000	\$ (10,060,000)

Barnwell's effective consolidated income tax rate for fiscal 2014, after adjusting income (loss) before income taxes for non-controlling interests, was 47%, as compared to 15% for fiscal 2013.

Consolidated taxes do not bear a customary relationship to pretax results due primarily to the fact that Canadian taxable income is not sheltered by U.S. source losses, Canadian income taxes are not estimated to have a current or future benefit as foreign tax credits or deductions for U.S. tax purposes, and U.S. consolidated net operating losses are not estimated to have any future U.S. tax benefit prior to expiration.

In May 2014, the Canada Revenue Agency notified Barnwell that the examination of Barnwell's Canadian federal income tax returns for fiscal 2010 and 2011 was completed with no adjustments.

Net earnings (loss) attributable to non-controlling interests

Earnings and losses 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 \$666,000 in fiscal 2014, as compared to net loss attributable to non-controlling interests of \$109,000 in fiscal 2013. The \$775,000 (711%) change is due primarily to impacts to non-controlling interests of the current year gain on the sale of our investment in joint ventures and greater

percentage of sales proceeds received, as compared to the prior year.

Inflation

The effect of inflation on Barnwell has generally been to increase its cost of operations, interest cost (as a substantial portion of Barnwell's debt is at variable short-term rates of interest which tend to increase as inflation increases), 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.

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Impact of Recently Issued Accounting Standards on Future Filings

In February 2013, the FASB issued ASU No. 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. This update provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. Examples of obligations within this guidance are debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The amendments are effective retrospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In March 2013, the FASB issued ASU No. 2013-05, *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. This update provides guidance on releasing cumulative translation adjustments when a reporting entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, these amendments provide guidance on the release of cumulative translation adjustments in partial sales of equity method investments and in step acquisitions. The amendments are effective on a prospective basis for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In April 2013, the FASB issued ASU No. 2013-07, *Liquidation Basis of Accounting*, which provides guidance on when and how to apply the liquidation basis of accounting and on what to disclose. The update requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent, as defined in the update. The amendments are effective on a prospective basis for an entity that determines liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for an net operating loss (NOL) carryforward, or similar tax loss or tax credit carryforward, rather than as a liability when (1) the uncertain tax position would reduce the NOL or other carryforward under the tax law of the applicable jurisdiction and (2) the entity intends to use the deferred tax asset for that purpose. The amendments are effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU relates to discontinued operations reporting for disposals of components of an entity that represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results. The standard expands the disclosures for discontinued operations and requires new disclosures related to individually material disposals that do not meet the definition of a discontinued operation. The amendments are effective for interim and annual periods beginning after December 15, 2014. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

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In May 2014, the FASB issued 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. The amendments in this update also require disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts. The amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, using one of two retrospective application methods. Early application is not permitted. 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 guidance is effective for interim and annual reporting periods beginning after December 15, 2016. Early application is permitted. 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, cash flows from operations, land investment segment proceeds and available credit. At September 30, 2014, Barnwell had \$16,104,000 in cash and cash equivalents, \$11,997,000 in working capital and \$3,273,000 of available credit under its credit facility with its Canadian bank.

Cash Flows

Cash flows provided by operations totaled \$5,569,000 for fiscal 2014, as compared to \$3,191,000 for the same period in fiscal 2013. This \$2,378,000 increase was primarily due to higher contract drilling segment operating results and changes in working capital in the current period.

Net cash provided by investing activities totaled \$9,078,000 for fiscal 2014, as compared to \$3,778,000 used in investing activities for the same period in fiscal 2013. The \$12,856,000 increase was primarily due to proceeds of \$13,846,000 received from the sale of oil and natural gas properties and \$3,297,000 received from the sale of our investment in joint ventures partially offset by a \$5,140,000 payment to acquire interests in the Kukio Resort land development partnerships.

Cash flows used in financing activities totaled \$6,031,000 for fiscal 2014, as compared to \$319,000 for fiscal 2013. The \$5,712,000 increase in cash used was primarily due to a \$5,024,000 increase in net debt repayments and distributions to non-controlling interests of \$705,000 in the current year, as compared to none in the prior year.

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Credit Arrangements

In April 2014, Barnwell's credit facility at Royal Bank of Canada was amended and renewed. The amendment, among other things, provides for a decrease in the aggregate principal amount of the revolving credit facility to \$11,800,000 Canadian dollars, or US\$10,528,000 at the September 30, 2014 exchange rate of 0.8922, from \$20,000,000 Canadian dollars. A portion of the decrease in the facility relates to the decrease in security resulting from the sales of oil and natural gas properties discussed below in Oil and Natural Gas Properties. The other material terms of the credit facility remain unchanged.

Borrowings under this facility were \$7,000,000 at September 30, 2014, as Barnwell repaid \$5,000,000 of the credit facility during the current year, and unused credit available was \$3,273,000 after consideration of issued letters of credit totaling \$255,000. The interest rate on the facility at September 30, 2014 was 2.66%. The renewed facility is available in U.S. dollars at LIBOR plus 2.50%, at Royal Bank of Canada's U.S. base rate plus 1.50%, or in Canadian dollars at Royal Bank of Canada's prime rate plus 1.50%. A standby fee of 0.625% per annum is charged on the unused facility balance.

Barnwell, together with its 80%-owned real estate joint venture, Kaupulehu 2007, has a non-revolving real estate loan with a Hawaii bank that terminates on April 1, 2018. Principal and interest are paid monthly and are determined based on a loan amortization schedule. Monthly payments of principal and interest are due on the first day of each month and will change as a result of an annual change in the interest rate, the sale of the house or the sale of a residential parcel. The interest rate adjusts each April for the remaining term of the loan to the lender's then prevailing interest rate for similarly priced commercial mortgage loans or a floating rate equal to the lender's base rate. The interest rate at September 30, 2014 was 3.41%. Any unpaid principal balance and accrued interest will be due and payable on April 1, 2018. The loan is collateralized by, among other things, a first mortgage on Kaupulehu 2007's lots together with all improvements thereon. Kaupulehu 2007 will be required to make a principal payment upon the sale of the house or a residential parcel in the amount of the net sales proceeds of the house or residential parcel; the loan agreement defines net sales proceeds as the gross sales proceeds for the house or residential parcel, less reasonable commissions and normal closing costs.

The non-revolving real estate loan agreement contains provisions requiring us to maintain compliance with certain covenants including a consolidated debt service coverage ratio of not less than 1.20 to 1 and a consolidated total liabilities to tangible net worth ratio not to exceed 1.85 to 1.

On November 27, 2013, Barnwell, through affiliated entities, entered into a non-revolving loan with a Hawaii bank for \$5,000,000 to fund the acquisition of interests in the Kukio Resort land development partnerships and certain acquisition costs. Barnwell repaid the loan in full on September 25, 2014.

Oil and Natural Gas Capital Expenditures

Barnwell's oil and natural gas capital expenditures, including accrued capital expenditures and excluding additions and revisions to estimated asset retirement obligations, decreased \$3,380,000 (60%) from \$5,662,000 in fiscal 2013 to \$2,282,000 in fiscal 2014. During the year ended September 30, 2014, Barnwell participated in the drilling of four gross (1.6 net) development wells in Canada. However, of those wells two gross (1.2 net) wells were part of the oil assets in the Mantario

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area of Saskatchewan, Canada which were sold on February 20, 2014 as discussed further below in Oil and Natural Gas Properties. Barnwell replaced 18% of oil production (including natural gas liquids) and 10% of natural gas production during fiscal 2014, as compared to 12% and 1%, respectively, during fiscal 2013. Of the \$2,282,000 total oil and natural gas properties investments for fiscal 2014, \$42,000 (2%) was for acquisition of oil and natural gas leases, \$884,000 (39%) was for exploration costs and \$1,356,000 (59%) was for development of oil and natural gas properties.

The following table sets forth the gross and net numbers of oil and natural gas wells Barnwell participated in drilling for the last two fiscal years:

	2014		2013	
	Gross	Net	Gross	Net
Exploratory oil and natural gas wells	-	-	1	1.0
Development oil and natural gas wells	4	1.6	7	1.3
Successful oil and natural gas wells	4	1.6	6	0.8
Unsuccessful oil and natural gas wells	-	-	2	1.5

Barnwell estimates that investments in oil and natural gas properties for fiscal 2015 will range from \$5,000,000 to \$12,000,000. 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

In February 2014, Barnwell entered into a Purchase and Sale Agreement with an independent third party and sold its interests in oil properties located in the Mantario area of Saskatchewan, Canada. The sales price per the agreement was adjusted for customary purchase price adjustments to \$2,726,000 in order to, among other things, reflect an economic effective date of January 1, 2014. Net oil production from Mantario was approximately 16,000 Boe, or approximately 3% of total net oil and natural gas production, for the year ended September 30, 2013. As of September 30, 2013, estimated net proved oil reserves volumes associated with this property was 35,000 Boe, or approximately 1% of the total reserve volumes at that date.

In April 2014, Barnwell entered into a Purchase and Sale Agreement with an independent third party and sold its interests in oil and gas properties located in the Chauvin, Cessford and Rat Creek areas of Alberta, Canada. The sales price per the agreement was adjusted at closing for preliminary purchase price adjustments to approximately \$4,581,000 in order to, among other things, reflect an economic effective date of March 1, 2014. The final

determination of the customary adjustments to the purchase price has not yet been made however it is not expected to result in material adjustments. Net oil and natural gas production from these properties was approximately 24,000 Boe, or approximately 4% of total net oil and natural gas production, for the year ended September 30, 2013. As of September 30, 2013, estimated net proved oil and natural gas reserve volumes associated with these properties was 132,000 Boe, or approximately 5% of the total reserve volumes at that date.

In May 2014, Barnwell entered into a Purchase and Sale Agreement with an independent third party and sold its interests in certain oil and gas properties located in the Boundary Lake area of Alberta and British Columbia, Canada. The sales price per the agreement was adjusted at closing for preliminary purchase price adjustments to approximately \$6,120,000 in order to, among other things, reflect an economic effective date of January 1, 2014. The final determination of the customary

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adjustments to the purchase price has not yet been made however it is not expected to result in material adjustments. Net oil and natural gas production from Boundary Lake was approximately 43,000 Boe, or approximately 7% of total net oil and natural gas production, for the year ended September 30, 2013. As of September 30, 2013, estimated net proved oil and natural gas reserve volumes associated with this property was 228,000 Boe, or approximately 8% of the total reserve volumes at that date.

During the year ended September 30, 2014, Barnwell also sold miscellaneous oil and natural gas properties for proceeds of \$692,000, of which \$273,000 was withheld in trust for the Canada Revenue Agency for potential amounts due for Barnwell's Canadian income taxes related to the sale which is included in Accounts and other receivables at September 30, 2014. Upon determination by the Canada Revenue Agency of any necessary tax deposits, the buyer is to release any such required amount of withheld funds to the Canada Revenue Agency and the remainder to Barnwell.

In accordance with full cost method rules, property sales are credited to the full cost pool, with no gain or loss recognized, unless such a sale would significantly alter the relationship between capitalized costs and the proved reserves attributable to these costs. No gain or loss was recognized as these unplanned sales to multiple counterparties in unrelated transactions did not individually result in a significant alteration of the relationship between capitalized costs and proved reserves.

Total proceeds received from sales of oil and natural gas properties during the year ended September 30, 2014 was \$13,846,000.

In October 2014, Barnwell entered into a Purchase and Sale Agreement with an independent third party and acquired additional interests in oil and natural gas properties located in the Progress area of Alberta, Canada, which closed on November 13, 2014. The purchase price per the agreement was adjusted at closing for preliminary purchase price adjustments to approximately \$526,000 in order to, among other things, reflect an economic effective date of July 1, 2014. The final determination of the customary adjustments to the purchase price will be made by the parties approximately 180 days after closing.

Asset Retirement Obligation

In July 2014, the Alberta Energy Regulator introduced an Inactive Well Compliance Program which will result in the acceleration of expenditures to suspend and/or abandon long-term inactive wells. Under the program all inactive wells that are noncompliant as of April 1, 2015 need to be brought into compliance within five years, in increments of 20 percent per year. At September 30, 2014, the current portion of the asset retirement obligation was \$978,000.

Other Considerations

We believe our sources of funds such as current cash and working capital balances, available credit, future operating cash flows and land investment segment proceeds will provide sufficient liquidity to fund our operations, planned future capital expenditures, asset retirement obligations, scheduled debt repayments and related interest. However, in the event oil and natural gas prices and production, land investment segment proceeds, and residential real estate home sale proceeds are less than current expectations, Barnwell's Canadian revolving credit facility is reduced below the level of borrowings under the facility upon the April 2015 review, and/or we fall short of our key financial debt covenants for our real estate loan and are required to repay all or a portion of our loan borrowings earlier than anticipated, we will be faced with reduced cash inflows and/or higher cash outflows than

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expected, which in turn could have a material adverse effect on our operations, liquidity, cash flows and financial condition. Absent a sufficient sustained increase in natural gas and/or oil prices, it is unlikely that future oil and natural gas operating cash flows will be sufficient to fund the capital expenditure levels necessary to maintain current production and reserve levels. As such, the near-term and longer-term outlook for sources and uses of funds and oil and natural gas capital resources remains highly dependent on the success of the Company in the investment of its current financial resources, as well as the factors noted above.

In the event our liquidity and capital resources are not sufficient to fund our future cash needs, the Company will need to obtain alternative terms or sources of financing or liquidate investments and/or operating assets to make any required cash outflows. Events and circumstances that lead to results that significantly differ from management's expectations could have a material adverse effect on our operations, liquidity, cash flows and financial condition.

Contractual Obligations

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

Contingencies

Environmental

As of September 30, 2014 and 2013, environmental remediation costs of \$501,000 and \$783,000, respectively, which have not been discounted, were accrued for probable environmental remediation costs for soil contamination from infrastructure issues at the Dunvegan and Wood River properties. 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 6 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.

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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, 2014 and 2013, 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, 2014 and 2013, 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 18, 2014

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BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30,	
	2014	2013
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 16,104,000	\$ 7,828,000
Accounts and other receivables, net of allowance for doubtful accounts	2,910,000	3,287,000
Prepaid expenses	221,000	230,000
Investment held for sale	1,139,000	-
Real estate held for sale	5,448,000	5,448,000
Other current assets	698,000	2,234,000
Total current assets	26,520,000	19,027,000
Investments	5,900,000	2,381,000
Property and equipment, net	22,350,000	41,306,000
Total assets	\$ 54,770,000	\$ 62,714,000
<u>LIABILITIES AND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 3,453,000	\$ 4,415,000
Accrued capital expenditures	519,000	1,846,000
Accrued incentive and other compensation	1,085,000	1,652,000
Accrued operating and other expenses	2,464,000	2,670,000
Payable to joint interest owners	915,000	187,000
Current portion of long-term debt	4,449,000	5,240,000
Current asset retirement obligation	978,000	-
Other current liabilities	660,000	437,000
Total current liabilities	14,523,000	16,447,000
Long-term debt	6,650,000	11,400,000
Liability for retirement benefits	4,266,000	3,137,000
Asset retirement obligation	8,185,000	7,520,000
Deferred income taxes	1,201,000	1,890,000
Total liabilities	34,825,000	40,394,000
Commitments and contingencies (Note 15)		
Equity:		
Common stock, par value \$0.50 per share; authorized, 20,000,000 shares: 8,445,060 issued at September 30, 2014 and 2013	4,223,000	4,223,000
Additional paid-in capital	1,315,000	1,289,000
Retained earnings	16,204,000	15,532,000
Accumulated other comprehensive (loss) income, net	(258,000)	2,991,000

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Treasury stock, at cost: 167,900 shares at September 30, 2014 and 2013	(2,286,000)	(2,286,000)
Total stockholders' equity	19,198,000	21,749,000
Non-controlling interests	747,000	571,000
Total equity	19,945,000	22,320,000
Total liabilities and equity	\$ 54,770,000	\$ 62,714,000

See Notes to Consolidated Financial Statements

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BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended September 30,	
	2014	2013
Revenues:		
Oil and natural gas	\$ 20,298,000	\$ 21,376,000
Contract drilling	6,287,000	2,338,000
Sale of interest in leasehold land, net	636,000	282,000
Gain on sale of investments	3,399,000	-
Gas processing and other	825,000	612,000
	31,445,000	24,608,000
Costs and expenses:		
Oil and natural gas operating	8,914,000	9,992,000
Contract drilling operating	5,026,000	2,239,000
General and administrative	8,026,000	8,911,000
Depletion, depreciation, and amortization	6,391,000	8,542,000
Reduction of carrying value of assets	-	4,506,000
Interest expense	664,000	587,000
	29,021,000	34,777,000
Income (loss) before equity in loss of affiliates and income taxes	2,424,000	(10,169,000)
Equity in loss of affiliates	(482,000)	-
Income (loss) before income taxes	1,942,000	(10,169,000)
Income tax provision (benefit)	604,000	(1,497,000)
Net earnings (loss)	1,338,000	(8,672,000)
Less: Net earnings (loss) attributable to non-controlling interests	666,000	(109,000)
Net earnings (loss) attributable to Barnwell Industries, Inc. stockholders	\$ 672,000	\$ (8,563,000)
Basic net earnings (loss) per common share attributable to Barnwell Industries, Inc. stockholders	\$ 0.08	\$ (1.03)
Diluted net earnings (loss) per common share attributable to Barnwell Industries, Inc. stockholders	\$ 0.08	\$ (1.03)
Weighted-average number of common shares outstanding:		
Basic	8,277,160	8,277,160
Diluted	8,278,292	8,277,160

See Notes to Consolidated Financial Statements

