

BARNWELL INDUSTRIES INC

Form 10-K

December 21, 2017

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, 2017

or

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

Commission File Number 1-5103

BARNWELL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

72-0496921

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

1100 Alakea Street, Suite 2900, Honolulu, Hawaii 96813-2840

(Address of principal executive offices) (Zip code)

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

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

Title of each class	Name of each exchange on which registered
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Common Stock, par value \$0.50 per share	NYSE American
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Securities registered pursuant to Section 12(g) of the Act: None

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

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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

Emerging growth company

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

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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, 2017 (the last business day of the registrant's most recently completed second fiscal quarter) was \$7,978,000.

As of December 1, 2017 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 18, 2018 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.
InSite	-InSite Petroleum Consultants Ltd.
Kaupulehu 2007	-Kaupulehu 2007, LLLP
KD I	-KD Acquisition, LLLP, formerly known as WB KD Acquisition, LLC (“WB”)
KD II	-KD Acquisition II, LLLP, formerly known as WB KD Acquisition II, LLC (“WBKD”)
KD Kona	-KD Kona 2013 LLLP
KKM Makai	-KKM Makai, LLLP
Kukio Resort land development partnerships	The following partnerships in which Barnwell owns a 19.6% non-controlling interest: - KD Kukio Resorts, LLLP - KD Maniniowali, LLLP - KD Kaupulehu, LLLP, which consists of KD I and KD II
MBbls	-thousands of barrels of oil
Mcf	1,000 cubic feet of natural gas at 14.65 pounds per square inch absolute and 60 degrees Fahrenheit
Mcfe	-Mcf equivalent at the rate of 1 Bbl = 5.8 Mcf
MMcf	-millions of cubic feet of natural gas
Net	Barnwell’s aggregate interest in the total acres or wells; for example, a 50% interest in a 320 acre lease represents 160 net acres and a 50% interest in a well represents 0.5 net well. In the context of production volumes, net represents amounts after deduction of the royalty share due others.
NGL(s)	-natural gas liquid(s)
OPEC	- Organization of the Petroleum Exporting Countries
SEC	-United States Securities and Exchange Commission
VIE	- Variable interest entity
Water Resources	- Water Resources International, Inc.

PART I

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

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

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

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

ITEM 1. BUSINESS

Overview

Barnwell was incorporated in Delaware in 1956 and fiscal 2017 represented Barnwell's 61st year of operations. Barnwell operates in the following three principal business segments:

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

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

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

Oil and Natural Gas Segment

Overview

Through our wholly-owned subsidiary, Barnwell of Canada, we are involved in the acquisition and development of oil and natural gas properties. Barnwell of Canada initiates and participates in acquisition and developmental operations for oil and natural gas on properties in which it has an interest and evaluates proposals by third parties with regard to participation in exploratory and developmental operations elsewhere. Over the past several years the upstream oil and natural gas business has evolved from the traditional exploration and production model to a much more capital intensive and technologically-advanced business based on drilling horizontal wells of considerable length and performing multi-stage hydraulic fracturing.

Operations

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

All acquisition and developmental activities, as well as all field operations and regulatory compliance, are the direct responsibility of Barnwell of Canada's President and Chief Operating Officer, with strategic direction and approvals for major expenditures secured from Barnwell's senior executive management. In fiscal 2017, Barnwell participated in acquisition and developmental operations in Alberta, although Barnwell does not limit its consideration of acquisition and developmental operations to this area.

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

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.

Strategy

Since fiscal 2014, Barnwell has been selectively divesting oil and natural gas assets to improve operational focus, reduce abandonment liabilities, and decrease the Company's debt burden, including the sale of its interests in its principal oil and natural gas properties located in the Dunvegan and Belloy areas of Alberta, Canada in fiscal 2015. Approximately \$30,000,000 in cash has been generated from these sales and \$12,000,000 of debt was repaid. However, as a result of these sales, combined with the decline in commodity prices, our oil and natural gas segment revenues and operating cash flow have significantly declined. We intend to continue to evaluate opportunities to acquire additional acreage and producing assets and to access new drilling and recompletion opportunities in order to deploy some or all of the cash on hand. However, since the downturn in commodity prices we have made only modest investments in new oil and natural gas properties. Without a significant reinvestment in our oil and natural gas business, future cash flow from operations from this segment will continue to decline.

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.

The preparation of data used by the independent petroleum reserve engineers to compile our oil and natural gas reserve estimates is completed in accordance with various internal control procedures which include verification of data input into reserves evaluation software, reconciliations and reviews of data provided to the independent petroleum reserve engineers to ensure completeness, and management review controls, including an independent internal review of the final reserve report for completeness and accuracy.

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

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

Reserves

The amounts set forth in the following table, based on InSite's evaluation of our reserves, summarize our estimated proved reserves of oil (including natural gas liquids) and natural gas as of September 30, 2017 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, 2017. All of our oil and natural gas reserves are located in Canada and are based on constant dollars. No estimates of total proved net oil or natural gas reserves have been filed with, or included in reports to, any federal authority or agency, other than the SEC, since October 1, 2016.

	September 30, 2017
Oil, including natural gas liquids (Bbls)	413,000
Natural gas (Mcf)	3,005,000
Total (Boe)	931,000

During fiscal 2017, Barnwell's total net proved developed reserves of oil and natural gas liquids decreased by 37,000 Bbls (8%) and total net proved developed reserves of natural gas increased by 1,564,000 Mcf (109%), for a combined increase of 233,000 Boe (33%). The increase in natural gas reserves was primarily the result of upward revisions in volumes resulting from higher rolling average historical first-day-of-the-month natural gas prices used in the determination of reserve volumes at September 30, 2017, partially offset by production during the year and dispositions of reserves. The decrease in oil and natural gas liquids reserves is primarily due to dispositions of reserves and production during the year, partially offset by upward revisions in volumes due to higher rolling average historical first-day-of-the-month oil prices and acquisitions of reserves.

The following table sets forth Barnwell's oil and natural gas net reserves at September 30, 2017, by property name, based on information prepared by InSite, as well as net production and net revenues by property name for the year ended September 30, 2017. This table is based on constant dollars where reserve estimates are based on sales prices, costs and statutory tax rates in existence at September 30, 2017, the date of the projection.

Property Name	As of September 30, 2017		For the year ended September 30, 2017					
	Net Proved		Total Net		Net Production		Net Revenues	
	Producing Reserves	Oil & Gas NGL(MMcf) (MBbls)	Produced Reserves	Oil & Gas NGL (MMcf) (MBbls)	Oil & Gas (Bbls)	Oil & Gas (Mcf)	Oil & NGL	Gas
Bonanza/Balsam	59	71	59	71	11,000	21,000	\$450,000	\$39,000
Hillsdown	14	153	23	190	4,000	50,000	135,000	94,000
Josephine	—	—	—	507	—	—	—	—
Progress	32	469	68	1,430	11,000	92,000	442,000	325,000
Red Earth	104	2	104	2	23,000	2,000	961,000	4,000
Spirit River	52	39	52	39	2,000	—	73,000	—
Wood River	70	43	70	43	20,000	13,000	809,000	29,000
Other properties	26	599	37	723	15,000	200,000	575,000	447,000
Total	357	1,376	413	3,005	86,000	378,000	\$3,445,000	\$938,000

Standardized Measure of Discounted Future Net Cash Flows

The following table sets forth Barnwell's "Estimated Future Net Revenues" from total proved oil, natural gas and natural gas liquids reserves and the present value of Barnwell's "Estimated Future Net Revenues" (discounted at 10%) as of September 30, 2017. Estimated future net revenues for total proved reserves are net of estimated future expenditures of developing and producing the proved reserves, and assume the continuation of existing economic conditions. Net revenues have been calculated using the average first-day-of-the-month price during the 12-month period ending as of the balance sheet date and current costs, after deducting all royalties, operating costs, future estimated capital expenditures (including abandonment costs), and income taxes.

Year ending September 30,

2018	\$ 1,331,000
2019	597,000
2020	837,000
Thereafter	3,308,000
Undiscounted future net cash flows, after income taxes	\$6,073,000

Standardized measure of discounted future net cash flows \$4,317,000 *

* This amount does not purport to represent, nor should it be interpreted as, the fair value of Barnwell's oil and natural gas 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 \$2.11 per Mcf and an oil price of \$44.36 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 2017, 2016 and 2015 was derived in Alberta, Canada. For a discussion regarding our total annual production volumes, average sales prices, and related production costs, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year ended September 30,		
	2017	2016	2015
Annual net production:			
Natural gas (Mcf)	378,000	476,000	1,688,000
Oil (Bbls)	81,000	78,000	78,000
Natural gas liquids (Bbls)	5,000	6,000	65,000
Total (Boe)	151,000	166,000	434,000
Total (Mcf)	877,000	965,000	2,513,000
Annual average sales price per unit of production:			
Mcf of natural gas*	\$1.98	\$1.27	\$2.23
Bbl of oil**	\$40.72	\$32.42	\$46.44
Bbl of natural gas liquids**	\$30.19	\$23.82	\$18.16
Annual average production cost per Boe produced***	\$19.03	\$18.58	\$13.81
Annual average production cost per Mcfe produced***	\$3.28	\$3.20	\$2.38

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

** Calculated on revenues 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 \$849,000 in oil and natural gas properties during fiscal 2017, including accrued capital expenditures and acquisitions of oil and natural gas properties and excluding additions and revisions to estimated asset retirement obligations, of which \$451,000 (53%) was for the acquisition of oil and natural gas leases and additional working interests in oil and natural gas properties and \$398,000 (47%) was for well improvements.

Well Drilling Activities

In September 2017, we participated in a horizontal well that was drilled in the Medicine River area, in which we have a 5.2% working interest. Completion operations will be carried out in the first quarter of fiscal 2018. There were no wells drilled in the fiscal years ended September 30, 2016 and 2015.

Productive Wells

As of September 30, 2017, Barnwell had interests in 137 gross (26.1 net) productive wells, of which 77 gross (14.1 net) were oil wells and 60 gross (12.0 net) were natural gas wells. Four natural gas wells and one oil well 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, 2017.

Location	Developed Acreage*		Undeveloped Acreage*		Total	
	Gross	Net	Gross	Net	Gross	Net
Canada	183,145	35,444	88,060	16,249	271,205	51,693

* “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.

Eighty percent of Barnwell’s undeveloped acreage is not subject to expiration at September 30, 2017. Twenty percent of Barnwell’s leasehold interests in undeveloped acreage is subject to expiration and expire over the next five fiscal years, if not developed, as follows: 9% expire during fiscal 2018; 0% expire during fiscal 2019; 4% expire during fiscal 2020; 3% expire during fiscal 2021; and 4% expire in fiscal 2022. There can be no assurance that Barnwell will be successful in renewing its leasehold interests in the event of expiration.

Much of the undeveloped acreage is at non-operated properties over which we do not have control, and the value of such acreage is not estimated to be significant at current commodity prices. Barnwell’s undeveloped acreage includes a significant concentration in the Thornbury (5,919 net acres) area of Alberta, Canada.

Marketing of Oil and Natural Gas

Barnwell sells all of its oil and natural gas liquids production under short-term contracts between itself and marketers of oil. The price of oil and natural gas liquids is freely negotiated between buyers and sellers and is largely determined by the world price for oil, which is principally denominated in U.S. dollars. Natural gas sold by Barnwell is generally sold under short-term contracts with prices indexed to market prices. The price of natural gas is freely negotiated between buyers and sellers and is principally determined for Barnwell by western Canadian/Midwestern U.S. prices for natural gas. In fiscal 2017, over 90% of Barnwell’s oil and natural gas revenues were from products sold at spot prices. Barnwell does not use derivative instruments to manage price risk.

In fiscal 2017 and 2016, 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.

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.

All of Barnwell's gross revenues were derived from properties located within Alberta, which charges oil and natural gas producers a royalty for production within the province. Provincial royalties are calculated as a percentage of revenue and vary depending on production volumes, selling prices and the date of discovery. Barnwell also pays gross overriding royalties and leasehold royalties on a portion of its oil and natural gas sales to parties other than the province of Alberta.

In January 2016, the Alberta Royalty Panel recommended a new modernized Alberta royalty framework which applies to wells drilled on or after January 1, 2017. The previous royalty framework will continue to apply to wells drilled prior to January 1, 2017 for a period of ten years, after which they will fall under the current royalty framework. Under the current royalty framework the same royalty calculation applies to both oil and natural gas wells, whereas the previous royalty framework had different royalties applicable to each category, and royalties are determined on a revenue minus cost basis where producers pay a flat royalty rate of 5% of gross revenues until a well reaches payout after which an increased post-payout royalty applies. Post payout royalties vary with commodity prices and are adjusted down for cost increases as wells age.

In fiscal 2017 and 2016, 63% and 54%, respectively, of royalties related to Alberta government charges, and 37% and 46%, respectively, of royalties related to freehold, override and other charges which are not directly affected by the Alberta royalty framework.

In fiscal 2017, the weighted-average royalty rate paid on all of Barnwell's natural gas was 2%, and the weighted-average royalty rate paid on oil was 18%.

Barnwell's oil and natural gas segment is subject to the provisions of the Alberta Energy Regulator's ("AER") Licensee Liability Rating ("LLR") program. Under the LLR program the AER calculates a Liability Management Ratio ("LMR") for a company based on the ratio of the company's deemed assets over its deemed liabilities relating to wells and facilities for which the company is the licensed operator. The LMR assessment is designed to assess a company's ability to address its suspension, abandonment, remediation, and reclamation liabilities. The value of the deemed assets is based on each well's most recent twelve months of production and a rolling three-year average industry netback as determined by the AER annually. The AER has not recalculated the three-year average industry netback since March 2015 making the current value a premium to what most producers have been realizing. A recalculation of the value using current industry netback values would likely have a significant negative impact on our LMR. Companies with an LMR less than 1.0 are required to deposit funds with the AER to cover future deemed liabilities. At September 30, 2017, the Company had sufficient deemed asset value that no security deposit was due.

The AER requires purchasers of AER licensed oil and natural gas assets to have an LMR of 2.0 or higher immediately following the transfer of a license. This LMR requirement for well transfers hinders our ability to generate capital by selling oil and natural gas assets as it limits the number of qualified buyers. Additionally, it inhibits our ability to grow through acquisitions without depositing collateral with the AER, as we currently have an LMR of less than 1.2.

Additionally, in July 2014, the AER introduced an Inactive Well Compliance Program which resulted in the acceleration of expenditures to suspend and/or abandon long-term inactive wells. Under the program all inactive wells that were non-compliant as of April 1, 2015 need to be brought into compliance by the operator within five years, in increments of not less than 20 percent per year. At April 1, 2015, Barnwell had 25 inactive wells identified as non-compliant by the AER. At September 30, 2017, 22 of these 25 wells had been brought into compliance through a combination of re-activation, abandonment, or suspension.

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

Competition

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

Land Investment Segment

Overview

Barnwell owns a 77.6% interest in Kaupulehu Developments, a Hawaii general partnership that has the right to receive percentage of sales payments from KD I and KD II resulting from the sale of lots and/or residential units by KD I and KD II within the approximately 870 acres of the Kaupulehu Lot 4A area in two increments ("Increment I" and "Increment II"), located approximately six miles north of the Kona International Airport in the North Kona District of the island of Hawaii, as well as 50% of any future distributions otherwise payable from KD II to its members up to a maximum of \$8,000,000, of which \$2,500,000 has been received to date. Kaupulehu Developments also holds an interest in approximately 1,000 acres of vacant leasehold land zoned conservation located adjacent to Lot 4A under a lease that terminates in December 2025, which currently has no development potential without both a development agreement with the lessor and zoning reclassification.

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

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

Operations

In the 1980s, Kaupulehu Developments obtained the state and county zoning changes necessary to permit development of the Four Seasons Resort Hualalai at Historic 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 sold its leasehold interest in Kaupulehu Lot 4A to KD I's and KD II's predecessors in interest, which was prior to Barnwell's affiliation with KD I and KD II which commenced on November 27, 2013, the acquisition date of our ownership interest in the Kukio Resort land development partnerships.

Increment I is an area planned for approximately 80 single-family lots, of which 23 lots remain to be sold, and a beach club on the portion of the property bordering the Pacific Ocean. The purchasers of the 80 single-family lots will have the right to apply for membership in the Kuki'o Golf and Beach Club, which is located adjacent to and south of the Four Seasons Resort Hualalai at Historic Kaupulehu. Increment II is the remaining portion of the approximately 870-acre property and is zoned for single-family and multi-family residential units and a golf course and clubhouse. Two residential lots of significant value approximately two to three acres in size fronting the ocean were developed within Increment II and sold by KD II, and the remaining acreage within Increment II is not yet under development. It is uncertain when or if KD II will develop the other areas of Increment II, and there is no assurance with regards to the amounts of future sales from Increments I and II.

Kaupulehu Developments is entitled to receive payments from KD I based on the following percentages of the gross receipts from KD I's sales of single-family residential lots in Increment I: 9% of the gross proceeds from single-family lot sales up to aggregate gross proceeds of \$100,000,000; 10% of such aggregate gross proceeds greater than \$100,000,000 up to \$300,000,000; and 14% of such aggregate gross proceeds in excess of \$300,000,000. In fiscal 2017, two single-family lots in Increment I were sold bringing the total amount of gross proceeds from single-family lot sales through September 30, 2017 to \$208,000,000.

Kaupulehu Developments is entitled to receive payments from KD II based on a percentage of the gross receipts from 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. The second of the two ocean front lots developed by KD II was sold in fiscal 2017 for \$20,975,000, of which we received a percentage of sales payment in the amount of \$1,678,000 from KD II representing 8% of the gross sales price of the parcel. Kaupulehu Developments is also entitled to receive 50% of distributions otherwise payable from KD II to its members up to \$8,000,000, of which \$2,500,000 has been received to date, after the members of KD II have received distributions equal to the original basis of capital invested in the project, which occurred in fiscal 2017.

In fiscal 2017, the Kukio Resort land development partnerships made cash distributions to its partners of which Barnwell received \$3,223,000, after distributing \$396,000 to minority interests.

Competition

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

Contract Drilling Segment

Overview

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

Operations

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

Water Resources currently operates in Hawaii and is not subject to seasonal fluctuations. The demand for Water Resources' services is primarily dependent upon land development activities in Hawaii. Water Resources markets its services to land developers and government agencies, and identifies potential contracts through public notices, its officers' involvement in the community and referrals. Contracts are usually fixed price per lineal foot drilled 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 2017, Water Resources started three well drilling and five pump installation and repair contracts and completed two well drilling and two pump installation and repair contracts. One of the pump installation and repair contracts completed was started in the prior year, and the other completed contracts were started in the current year. Fifty-five percent of well drilling and pump installation and repair jobs, representing 76% of total contract drilling revenues in fiscal 2017, have been pursuant to government contracts.

At September 30, 2017, there was a backlog of three well drilling and nine pump installation and repair contracts, of which two well drilling and seven pump installation and repair contracts were in progress as of September 30, 2017.

The approximate dollar amount of Water Resources' backlog of firm well drilling and pump installation and repair contracts at December 1, 2017 and 2016 was as follows:

	December 1,	
	2017	2016
Well drilling	\$4,600,000	\$2,900,000
Pump installation and repair	1,600,000	900,000
	\$6,200,000	\$3,800,000

Of the contracts in backlog at December 1, 2017, \$3,800,000 is expected to be recognized in fiscal 2018 with the remainder to be recognized in the following fiscal year.

Competition

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

Competitive pressures are expected to remain high, thus there is no assurance that the quantity or values of available or awarded jobs which occurred in fiscal 2017 will continue.

Financial Information About Industry Segments and Geographic Areas

Note 14 in the "Notes to Consolidated Financial Statements" in Item 8 contains information on our segments and geographic areas.

Employees

At December 1, 2017, Barnwell employed 29 individuals; 28 on a full time basis and 1 on a part time basis.

Environmental Costs

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

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

Available Information

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

ITEM 1A. RISK FACTORS

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

Entity-Wide Risks

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

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

Our revenues have decreased significantly in recent years and there can be no assurances that our revenues will not continue to decline.

Our consolidated revenues have been declining rapidly for years with the most significant decline in our oil and natural gas segment primarily resulting from the sales of a significant amount of our oil and natural gas assets since fiscal 2014, most notably the sale of Dunvegan our principal oil and natural gas property which was sold in September 2015, and declines in oil and natural gas prices. We need to generate new revenues quickly and profitably, but there can be no assurances that we will be successful in doing so. Failure to increase our revenues profitability may force us to wind down our operations, either through further liquidation of our assets or bankruptcy. We may not be able to continue as a going concern beyond one year.

A small number of stockholders, including our CEO and former CEO and Chairman of the Board, 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, 2017, the CEO, the former CEO and Chairman of the Board, who are both members of the Board of Directors, and two others hold approximately 38% 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 are also members of the Board of Directors could significantly affect our business, policies and affairs.

Our operations are subject to currency rate fluctuations.

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

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

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

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

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

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

Failure to retain key personnel could hurt our operations.

We require highly skilled and experienced personnel to operate our business. In addition to competing in highly competitive industries, we compete in a highly competitive labor market. Our business could be adversely affected by an inability to retain personnel or upward pressure on wages as a result of the highly competitive labor market. Further, there are significant personal liability risks to Barnwell of Canada's individual officers and directors related to well clean-up costs that may affect our ability to attract or retain the necessary people.

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

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

Risks Related to Oil and Natural Gas Segment

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

Since fiscal 2014, Barnwell has been selectively divesting oil and natural assets to improve operational focus, reduce abandonment liabilities, and decrease the Company's debt burden, however, as a result of these sales, our oil and natural gas segment revenues and operating cash flow have significantly declined. Most notably, in September 2015, we sold our interest in our principal oil and natural gas property Dunvegan, which resulted in a 60% decrease in our proved natural gas reserves and a 34% decrease in our proved oil and natural gas liquids reserves. In fiscal 2015, Dunvegan contributed 46% of our total oil and natural gas revenues. Reinvestment in oil and natural gas segment assets are needed to replace the significant amount of reserves sold and reserves produced.

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

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

Our oil and natural gas acquisition and development activities require substantial capital expenditures which we intend to fund using cash on hand. However, the Company's current cash on hand is likely to be needed to fund upcoming cash needs including asset retirement obligations, retirement plan funding, and ongoing operating and general and administrative expenses, such that some or potentially all of the cash will not be available for reinvestment. Future cash flows from operations are uncertain and are based on a number of variables including the level of production from existing wells, oil and natural gas prices, and our success

in acquiring and developing new reserves. Barnwell's existing oil and natural gas assets are projected to have negative cash flow from operations at current prices and production levels.

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

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

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

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

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

Various factors beyond our control affect prices of oil and natural gas including, but not limited to, changes in supply and demand, market uncertainty, weather, worldwide political instability, foreign supply of oil and natural gas, the level of consumer product demand, government regulations and taxes, the price and availability of alternative fuels and the overall economic environment. Energy prices are also subject to other political and regulatory actions outside our control, which may include changes in the policies of the Organization of the 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.

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

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

Liquidity problems encountered by our working interest partners or the third party operators of our non-operated properties may also result in significant financial losses as the other working interest partners or third party operators may be unwilling or unable to pay their share of the costs of projects as they become due. In the event a third party operator of a non-operated property becomes insolvent, it may result in increased operating expenses and cash required for abandonment liabilities if the Company is required to take over operatorship. Barnwell holds a 10% working interest in a property with approximately 80 wells where the operator is in receivership.

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

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

Barnwell's oil and natural gas segment is subject to the provisions of the Alberta Energy Regulator's (“AER”) Licensee Liability Rating (“LLR”) program. Under the LLR program the AER calculates a Liability Management Ratio (“LMR”) for a company based on the ratio of the company’s deemed assets over its deemed liabilities relating to wells and facilities for which the company is the licensed operator and imposes a security deposit on operators whose estimated liabilities exceed their deemed asset value. At September 30, 2017, the Company had sufficient deemed asset value that no security deposit was due. However, decreases in prices and production and related netbacks from relevant properties could result in a decline in the Company's deemed asset value to a point where a deposit could be due in the future.

The AER requires purchasers of AER licensed oil and natural gas assets to have an LMR of 2.0 or higher immediately following the transfer of a license. This LMR requirement for well transfers hinders our ability to generate capital by selling oil and natural gas assets as there are less qualified buyers. Additionally, it inhibits our ability to grow through acquisitions without depositing collateral with the AER, as we currently have an LMR of less than 1.2.

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

We are not fully insured against certain environmental risks, either because such insurance is not available or because of high premium costs. In particular, insurance against risks from environmental pollution occurring over time, as opposed to sudden and catastrophic damages, is not available on economically reasonable terms. Accordingly, any site reclamation or abandonment costs actually incurred in the ordinary course of business in a specific period could negatively impact our cash flow. Should we be unable to fully

fund the cost of remedying an environmental problem, we might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy.

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

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

In connection with these assessments, we perform a review of the subject properties that we believe to be generally consistent with industry practices. Our review will not reveal all existing or potential problems nor will it permit us to become sufficiently familiar with the properties to fully assess their deficiencies and potential recoverable reserves. Inspections may not always be performed on every well, and environmental problems are not necessarily observable even when an inspection is undertaken. Even when problems are identified, the seller may be unwilling or unable to provide effective contractual protection against all or part of the problems. We often are not entitled to contractual indemnification for environmental liabilities or title defects in excess of the amounts claimed by us before closing and acquire properties on an "as is" basis.

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

If oil and natural gas prices decline, we may be required to take write-downs of the carrying values of our oil and natural gas properties.

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

The oil and natural gas industry is highly competitive.

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

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

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

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

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

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

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

Actual reserves will vary from reserve estimates.

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

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

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

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

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

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

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

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

Our operations are subject to all of the risks associated with the operation and development of oil and natural gas properties, including the drilling of oil and natural gas wells, and the production and transportation of oil and natural gas. These risks include encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, other environmental risks, fires and spills. A number of these risks could result in personal injury, loss of life, or environmental and other damage to our property or the property of others.

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

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

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

Barnwell's oil and natural gas operations are affected by political developments and laws and regulations, particularly in Canada and the United States, such as restrictions on production, restrictions on imports and exports, the maintenance of specified reserves, tax increases and retroactive tax claims, expropriation of property, cancellation of contract rights, environmental protection controls, environmental compliance requirements and laws pertaining to workers' health and safety. Further, the right to explore for and develop oil and natural gas on lands in Alberta, Saskatchewan and British Columbia is controlled by the governments of each of those provinces. Changes in royalties and other terms of provincial leases, permits and reservations may have a substantial effect on Barnwell's operations. We derive a significant portion of our revenues from our operations in Canada; 35% in fiscal 2017.

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

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

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

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

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

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

Risks Related to Land Investment Segment

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

We have become increasingly dependent on our land investment segment as our revenues, cash flows and profits from our oil and natural gas segment have continued to decline.

We are entitled to receive future payments based on a percentage of the sales prices of residential lots sold within the Kaupulehu area by KD I and KD II as well as a percentage of future distributions KD II makes to its members. However, in order to collect such payments we are reliant upon the developer, KD I and KD II, in which we own a 19.6% ownership interest, to continue to market the remaining lots within Increment I and to proceed with the development or sale of the remaining portion of Increment II. Additionally, future cash distributions from the Kukio Resort land development partnerships, which includes KD I and KD II, are also dependent on future lot sales in Increment I by KD I and the development or sale of Increment II by KD II. It is uncertain when or if KD II will develop or sell the remaining portion of Increment II, and there is no assurance with regards to the amounts of future sales from Increments I and II. The developer is required to submit an overall status report of the project, including the percentage of completed development, by April 20, 2019. There is a possibility that regulatory authorities could impose adverse conditions of approval that impede the developer's goals, or outright refuse to extend the allowed zoning beyond April 20, 2019, which would have an adverse impact on the value of the property. 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 payments and cash distributions could be jeopardized if the developer fails to proceed with development and marketing of the property.

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

These investments involve risks which include:

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

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

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

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

The market value of our residential lot held for sale can fluctuate significantly as a result of changing economic market conditions. During fiscal 2017, we recorded a \$155,000 impairment of the residential lot held for sale as a result of changes in fair values for comparable real estate. If the market conditions deteriorate, we may be required to record an additional write-down of the carrying value of our residential lot held for sale. Such a write-down would have a negative impact on our results of operations.

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

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

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 land investments. The occurrence of a natural disaster could also cause property and flood insurance rates and deductibles to increase, which could reduce demand for real estate in Hawaii.

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.

If we are unable to accurately estimate the overall risks, requirements or costs when bidding on or negotiating a contract that is ultimately awarded, we may achieve a lower than anticipated profit or incur a loss on the contract.

Contracts are usually fixed price per lineal foot drilled and require the provision of line-item materials at a fixed unit price based on approved quantities irrespective of actual per unit costs. Under such contracts, prices are established in part on cost and scheduling estimates, which are based on a number of assumptions, many of which are beyond our control. Expected profits on contracts are realized only if costs are accurately estimated and successfully controlled. We may not be able to obtain compensation for additional work performed or expenses incurred as a result of changes or inaccuracies in these estimates and underlying

assumptions, such as unanticipated sub-surface site conditions, unanticipated technical problems, equipment failures, inefficiencies, cost of raw materials, schedule delays due to constraints on drilling hours, weather delays, or accidents. If cost estimates for a contract are inaccurate, or if the contract is not performed within cost estimates, then cost overruns may result in losses or cause the contract not to be as profitable as expected.

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; 76% in fiscal 2017. Reduced tax revenues and governmental budgets may limit spending by local governments which in turn will affect the demand for our services. Material reductions in spending by a significant number of local governmental agencies could have a material adverse effect on our business, results of operations, liquidity and financial position.

Our contract drilling operations face significant competition.

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Oil and Natural Gas and Land Investment Properties

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

Corporate Offices

Barnwell, through a wholly-owned subsidiary, owns the 29th floor of a commercial office building in downtown Honolulu that it uses as its corporate 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.

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 American under the ticker symbol “BRN.” The following tables present the quarterly high and low sales prices, on the NYSE American, for Barnwell’s common stock during the periods indicated:

Quarter Ended	High	Low	Quarter Ended	High	Low
December 31, 2015	\$2.25	\$1.85	December 31, 2016	\$2.04	\$1.55
March 31, 2016	\$1.95	\$1.30	March 31, 2017	\$2.70	\$1.58
June 30, 2016	\$1.79	\$1.31	June 30, 2017	\$2.21	\$1.70
September 30, 2016	\$2.01	\$1.40	September 30, 2017	\$1.93	\$1.62

Holder

As of December 1, 2017, there were 8,277,160 shares of common stock, par value \$0.50, outstanding. As of December 1, 2017, there were approximately 90 shareholders of record and approximately 1,000 beneficial owners.

Dividends

No dividends were declared or paid during fiscal years 2017 or 2016. The payment of future cash dividends will depend on, among other things, our financial condition, operating cash flows, the amount of cash inflows from land investment activities, and the level of our oil and natural gas capital expenditures.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Stock Performance Graph and Cumulative Total Return

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

The following discussion is intended to assist in the understanding of the Consolidated Balance Sheets of Barnwell Industries, Inc. and subsidiaries (collectively referred to herein as "Barnwell," "we," "our," "us" or the "Company") as of September 30, 2017 and 2016, and the related Consolidated Statements of Operations, Comprehensive Income (Loss), Equity, and Cash Flows for the years ended September 30, 2017 and 2016. This discussion should be read in conjunction with the consolidated financial statements and related Notes to Consolidated Financial Statements included in this report.

Current Outlook

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

Use of Estimates in the Preparation of Financial Statements

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

Critical Accounting Policies and Estimates

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

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

Policy Description

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

Judgments and Assumptions

The estimate of our oil and natural gas reserves is a major component of the ceiling calculation and represents the component that requires the most subjective judgments. Estimates of reserves are forecasts based on engineering data, historical data, projected future rates of production and the timing of future expenditures. The process of estimating oil and natural gas reserves requires substantial judgment, resulting in imprecise determinations, particularly for new discoveries. Our reserve estimates are prepared at least annually by independent petroleum reserve engineers. 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. A portion of the revisions are attributable to changes in the rolling 12-month average first-day-of-the-month prices, which impact the economics of producible reserves. In the last three fiscal years, annual revisions to our reserve volume estimates have averaged 30% 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 2017, the ceiling limitation would have decreased approximately \$406,000 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 2017, depletion for fiscal 2017 would have increased by approximately \$42,000.

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.

Investment Held for Sale

Policy Description

Investment held for sale is 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

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

Equity Method Investments

Policy Description

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

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

Judgments and Assumptions

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

Income Taxes

Policy Description

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

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

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

Judgments and Assumptions

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

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

Asset Retirement Obligation

Policy Description

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

Judgments and Assumptions

The asset retirement obligation is recorded at fair value in the period in which it is incurred along with a corresponding increase in the carrying amount of the related asset. Barnwell has estimated fair value by discounting the estimated future cash outflows required to settle abandonment and restoration liabilities. The present value calculation includes numerous estimates, assumptions and judgments regarding the existence of liabilities, the amount and timing of cash outflows required to settle the liability, what constitutes adequate restoration, inflation factors, credit adjusted discount rates, and consideration of changes in legal, regulatory, environmental and political environments. Abandonment and restoration cost estimates are determined in conjunction with Barnwell's reserve engineers based on historical information regarding costs incurred to abandon and restore similar well sites, information regarding current market conditions and costs, and knowledge of subject well sites and properties. The process of estimating the asset retirement obligation requires substantial judgment and use of estimates, resulting in imprecise determinations. Actual asset retirement obligations through the end of fiscal 2017 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 2017 expenses before taxes by approximately \$104,000.

Overview

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

Oil and Natural Gas Segment

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

Barnwell sells all of its oil and natural gas liquids production under short-term contracts with marketers of oil. Natural gas sold by Barnwell is generally sold under short-term contracts with prices indexed to market prices. The price of natural gas, oil and natural gas liquids is freely negotiated between the buyers and sellers. Oil and natural gas prices are determined by many factors that are outside of our control. Market prices for

oil and natural gas products are dependent upon factors such as, but not limited to, changes in market supply and demand, which are impacted by overall economic activity, changes in weather, pipeline capacity constraints, inventory storage levels, and output. Oil and natural gas prices are very difficult to predict and fluctuate significantly. Natural gas prices tend to be higher in the winter than in the summer due to increased demand, although this trend has become less pronounced due to the increased use of natural gas to generate electricity for air conditioning in the summer and increased natural gas storage capacity in North America.

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

Land Investment Segment

The land investment segment is comprised of the following components:

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

The right to receive percentage of sales payments from KD Acquisition, LLLP ("KD I") resulting from the sale of single-family residential lots by KD I, within Increment I of the approximately 870 acres of the Kaupulehu Lot 4A area located in the North Kona District of the island of Hawaii. Kaupulehu Developments is entitled to receive payments from KD I based on the following percentages of the gross receipts from KD I's sales: 9% of the gross proceeds from single-family lot sales up to aggregate gross proceeds of \$100,000,000; 10% of such aggregate gross proceeds greater than \$100,000,000 up to \$300,000,000; and 14% of such aggregate gross proceeds in excess of \$300,000,000. Increment I is an area zoned for approximately 80 single-family lots, of which 23 remained to be sold at September 30, 2017, and a beach club on the portion of the property bordering the Pacific Ocean, and is partially developed.

The right to receive percentage of sales payments from KD Acquisition II, LLLP ("KD II") resulting from the sale of lots and/or residential units by KD II, within Increment II of Kaupulehu Lot 4A. Increment II is the remaining portion of the approximately 870-acre property and is zoned for single-family and multi-family residential units and a golf course and clubhouse. Kaupulehu Developments is entitled to receive payments from KD II based on a percentage of the gross receipts from KD II's sales ranging from 8% to 10% of the price of improved or unimproved lots or 2.60% to 3.25% of the price of units constructed on a lot, to be determined in the future depending upon a number of variables, including whether the lots are sold prior to improvement. Kaupulehu Developments is also entitled to receive 50% of any future distributions otherwise payable from KD II to its members up to \$8,000,000, of which \$2,500,000 has been received to date. Two ocean front parcels approximately two to three acres in size fronting the ocean were developed within Increment II by KD II. At September 30,

2017, both of the parcels have been sold, and the remaining acreage within Increment II is not yet under development.

An indirect 19.6% non-controlling ownership interest in the Kukio Resort land development partnerships which is comprised of KD Kukio Resorts, LLLP, KD Maniniowali, LLLP and KD Kaupulehu, LLLP. These entities own certain real estate and development rights interests in the Kukio, Maniniowali and Kaupulehu portions of Kukio Resort, a private residential community on the Kona coast of the island of Hawaii, as well as Kukio Resort's real estate sales office operations. KD Kaupulehu, LLLP, which wholly owns KD I and KD II discussed above, is the developer of Kaupulehu Lot 4A Increments I and II, the area in which Barnwell has interests in percentage of sales payments and percentage of future distributions to KD II's members. The partnerships derive income from the sale of residential parcels as well as from commission on real estate sales by the real estate sales office. As of September 30, 2017, 23 lots remained to be sold within Kaupulehu Increment I.

- Approximately 1,000 acres of vacant leasehold land zoned conservation in the Kaupulehu Lot 4C area located adjacent to the 870-acre Lot 4A described above, which currently has no development potential without both a development agreement with the lessor and zoning reclassification.
- 2) Barnwell owns an 80% interest in Kaupulehu 2007, a Hawaii limited liability limited partnership. At September 30, 2017, Kaupulehu 2007 owned one residential parcel in the Kaupulehu Increment I area that was available for sale.

Contract Drilling Segment

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

Residential Real Estate

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

Business Environment

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

Oil and Natural Gas Segment

Since late 2014 the industry has experienced significant instability in oil and natural gas prices, with the lowest level of prices realized in early 2016, that has negatively impacted our operating results, cash

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

Barnwell realized an average price for oil of \$40.72 per barrel during the year ended September 30, 2017, an increase of 26% from \$32.42 per barrel realized during the prior year. The increase in the average price for oil in recent months is primarily a result of agreements made by both OPEC and non-OPEC producers in late 2016, and recently extended to March 2018, to reduce production. We expect that oil prices will remain volatile in the near term and may be affected by economic growth figures, political instability, supply and pipeline capacity constraints.

Barnwell realized an average price for natural gas of \$1.98 per Mcf during the year ended September 30, 2017, an increase of 56% from \$1.27 per Mcf realized during the prior year. Natural gas prices were depressed to historic low levels in 2016 as a result of weak growth in demand and a mild winter which led to storage levels exceeding the five-year average. While storage remains high in 2017, it has declined from the record levels of 2016.

Barnwell's oil and natural gas segment is subject to the provisions of the Alberta Energy Regulator's ("AER") Licensee Liability Rating ("LLR") program. Under the LLR program the AER calculates a Liability Management Ratio ("LMR") for a company based on the ratio of the company's deemed assets over its deemed liabilities relating to wells and facilities for which the company is the licensed operator. The LMR assessment is designed to assess a company's ability to address its suspension, abandonment, remediation, and reclamation liabilities. The value of the deemed assets is based on each well's most recent twelve months of production and a rolling three-year average industry netback as determined by the AER annually. The AER has not recalculated the three-year average industry netback since March 2015 making the current value a premium to what most producers have been realizing. A recalculation of the value using current industry netback values would likely have a significant negative impact on our LMR. Companies with an LMR less than 1.0 are required to deposit funds with the AER to cover future deemed liabilities. At September 30, 2017, the Company had sufficient deemed asset value that no security deposit was due.

The AER requires purchasers of AER licensed oil and natural gas assets to have an LMR of 2.0 or higher immediately following the transfer of a license. This LMR requirement for well transfers hinders our ability to generate capital by selling oil and natural gas assets as it limits the number of qualified buyers. Additionally, it inhibits our ability to grow through acquisitions without depositing collateral with the AER, as we currently have an LMR of less than 1.2.

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

Land Investment Segment

Future land investment payments and any future cash distributions from our investment in the Kukio Resort land development partnerships are dependent upon the sale of the remaining 23 residential lots within Increment I by KD I and potential future development or sale of the remaining portion of Increment II by KD II of Kaupulehu Lot 4A. The amount and timing of future land investment segment proceeds from percentage of sales payments and cash distributions from the Kukio Resort land development partnerships are highly uncertain and out of our control, and there is no assurance with regards to the amounts of future sales of residential lots within Increments I and II.

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

Contract Drilling Segment

Demand for water well drilling and/or pump installation and repair services is volatile and dependent upon land development activities within the state of Hawaii. Management currently estimates that well drilling activity for fiscal 2018 will be comparable to fiscal 2017 based upon the value of contracts in backlog.

Results of Operations

Summary

Net earnings attributable to Barnwell for fiscal 2017 totaled \$1,171,000, a \$4,786,000 increase in operating results from a net loss of \$3,615,000 in fiscal 2016. The following factors affected the results of operations for the current fiscal year as compared to the prior fiscal year:

A \$2,093,000 increase in land investment segment operating profit, before income taxes and non-controlling interests' share of such profits, due to a \$2,500,000 payment received by Kaupulehu Developments from KD II in the current year;

A \$1,708,000 increase in oil and natural gas segment operating results, before impairment of assets and income taxes, due primarily to an increase in net revenues as a result of increases in prices for all products and a reduction in the depletion rate as a result of sales of oil and natural gas properties and upward revisions of oil and natural gas reserves due to higher rolling average prices in the current year period;

A \$553,000 increase in contract drilling segment operating results, before income taxes, primarily resulting from increased activity on a contract for the plugging and abandonment of two geothermal wells which was partially offset by losses on certain water well drilling contracts due to unforeseen difficulties such as geological formation issues and well wall subsidences;

▲ \$1,154,000 impairment of oil and natural gas properties recorded in the prior year; and

- A \$348,000 decrease in equity in income from affiliates recorded as a result of decreased operating results of the Kukio Resort land development partnerships.

General

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

The average exchange rate of the Canadian dollar to the U.S. dollar increased 1% in fiscal 2017, as compared to fiscal 2016, and the exchange rate of the Canadian dollar to the U.S. dollar increased 5% at September 30, 2017, as compared to September 30, 2016. 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 earnings (loss). Other comprehensive income due to foreign currency translation adjustments, net of taxes, for fiscal 2017 was \$147,000, a \$60,000 increase from \$87,000 in fiscal 2016. There were no taxes on other comprehensive income (loss) due to foreign currency translation adjustments in fiscal 2017 and 2016 due to a full valuation allowance on the related deferred tax assets.

Oil and natural gas

Selected Operating Statistics

The following tables set forth Barnwell's annual average prices per unit of production and annual net production volumes for fiscal 2017 as compared to fiscal 2016. Production amounts reported are net of royalties.

	Annual Average Price Per Unit			
	2017	2016	Increase (Decrease)	
			\$	%
Natural gas (Mcf)*	\$1.98	\$1.27	\$0.71	56%
Oil (Bbls)	\$40.72	\$32.42	\$8.30	26%
Liquids (Bbls)	\$30.19	\$23.82	\$6.37	27%

	Annual Net Production			
	2017	2016	Increase (Decrease)	
			Units	%
Natural gas (Mcf)	378,000	476,000	(98,000)	(21)%
Oil (Bbls)	81,000	78,000	3,000	4%
Liquids (Bbls)	5,000	6,000	(1,000)	(17)%

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

The oil and natural gas segment generated a \$507,000 operating profit in fiscal 2017 before general and administrative expenses, an increase in operating results of \$2,862,000 as compared to the \$2,355,000 operating loss generated in fiscal 2016. Operating results were negatively impacted in fiscal 2016 by the impairment of oil and natural gas assets of \$1,154,000.

Oil and natural gas revenues increased \$1,206,000 (38%) from \$3,177,000 in fiscal 2016 to \$4,383,000 in fiscal 2017, primarily due to increases in prices for all products as well as from approximately \$200,000 of additional royalties assessed on a non-operated property in the prior year period which decreased prior year net revenues. The increase in revenues in the current year due to increased oil production was more than offset by the decrease in revenues due to decreased natural gas and natural gas liquids production.

Oil and natural gas operating expenses decreased \$114,000 (4%) from \$3,142,000 in fiscal 2016 to \$3,028,000 in fiscal 2017, primarily as a result of a reduction in the estimated probable remediation costs for a gas migration at one of our non-operated wells for which approximately \$200,000 was originally accrued in the prior year and was adjusted down to approximately \$23,000 in the current year based on information received in the current year from the operator, as well as from approximately \$205,000 in equalization credits for previously allocated operating expenses received from non-operated properties in the current year which decreased operating expenses. These decreases were partially offset by increased workover costs and gas transportation fees in the current year related to certain properties.

Sale of interest in leasehold land

Kaupulehu Developments is entitled to receive a percentage of the gross receipts from the sales of lots in Increment I from KD I and the sales of lots and/or residential units in Increment II from KD II. Kaupulehu Developments is also entitled to receive 50% of distributions otherwise payable from KD II to its members up to \$8,000,000, of which \$2,500,000 has been received to date, after the members of KD II have received distributions equal to the original basis of capital invested in the project, which occurred in fiscal 2017. KD I and KD II are land development partnerships in which Barnwell holds an indirect 19.6% non-controlling ownership interest accounted for under the equity method of investment. The percentage of sales payments and percentage of distribution payments are part of transactions which took place in 2004 and 2006 where Kaupulehu Developments sold its leasehold interests in Increment I and Increment II to KD I's and KD II's predecessors in interest, respectively, which was prior to Barnwell's affiliation with KD I and KD II which commenced on November 27, 2013, the acquisition date of our ownership interest in the Kukio Resort land development partnerships.

The following table summarizes the percentage of sales payment revenues received from KD I and KD II and the amount of fees directly related to such revenues:

	Year ended September 30,	
	2017	2016
Sale of interest in leasehold land:		
Revenues - sale of interest in leasehold land	\$4,503,000	\$2,255,000
Fees - included in general and administrative expenses	(648,000)	(340,000)
Sale of interest in leasehold land, net of fees	\$3,855,000	\$1,915,000

During the year ended September 30, 2017, Barnwell received \$2,003,000 in percentage of sales payments from KD I and KD II from the sale of the second of two large ocean front lots within Increment II and the sale of two single-family lots within Phase II of Increment I. In September 2017, Kaupulehu Developments received \$2,500,000 from KD II representing an amount equal to 50% of the distributions KD II made to its members. The amount and timing of any such future receipts by Kaupulehu Developments cannot be determined at this time as distributions by KD II are solely at the discretion of KD II's managing partner, who holds the controlling interest in KD II, and as future distributions are also dependent upon KD II's future results of operations.

During the year ended September 30, 2016, Barnwell received \$2,255,000 in percentage of sales payments from KD I and KD II from the sale of the first of two large ocean front lots within Increment II and the sale of three single-family lots in Phase II of Increment I.

As of September 30, 2017, 23 single-family lots, of the 80 lots developed within Increment I, remained to be sold. The current remaining acreage within Increment II is not yet under development. It is uncertain when or if KD II will develop the other areas of Increment II, and there is no assurance with regards to the amounts of future sales from Increments I and II.

Contract drilling

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

Contract drilling revenues increased \$1,705,000 (76%) to \$3,938,000 in fiscal 2017, as compared to \$2,233,000 in fiscal 2016, and contract drilling costs increased \$1,133,000 (54%) to \$3,231,000 in fiscal 2017, as compared to \$2,098,000 in fiscal 2016. The contract drilling segment generated a \$437,000 operating profit before general and administrative expenses during fiscal 2017, an increase in operating results of \$553,000 as compared to an operating loss before general and administrative expenses of \$116,000 in fiscal 2016. The increase in operating results as compared to the prior year was primarily due to increased activity on a contract for the plugging and abandonment of two geothermal wells, partially offset by current year losses on certain water well drilling contracts due to unforeseen difficulties such as geological formation issues and well wall subsidences.

At September 30, 2017, there was a backlog of three well drilling and nine pump installation and repair contracts, of which two well drilling and seven pump installation and repair contracts were in progress as of September 30, 2017. The backlog of contract drilling revenues as of December 1, 2017 was approximately \$6,200,000, of which \$3,800,000 is expected to be realized in fiscal 2018 with the remainder to be recognized in the following fiscal year.

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

Residential real estate revenues and expenses

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

General and administrative expenses

General and administrative expenses increased \$275,000 (4%) to \$6,976,000 in fiscal 2017, as compared to \$6,701,000 in fiscal 2016. The increase was due to a \$308,000 increase in professional fees related to commission due on land investment proceeds and a \$233,000 increase in directors' fees, partially offset by a \$192,000 decrease in compensation costs and a \$67,000 decrease in holding costs related to the home that was sold in April 2016. Barnwell's long-term Chief Executive Officer resigned effective December 31, 2016 but continued to serve on the Company's Board of Directors. Therefore, as a non-employee director, as of January 1, 2017, he began receiving a director's fee.

Depletion, depreciation, and amortization

Depletion, depreciation, and amortization decreased \$404,000 (25%) in fiscal 2017 as compared to fiscal 2016 primarily due to a reduction in the depletion rate, as well as from decreases in production. The depletion rate decreased in the current year due to sales of oil and natural gas properties that were credited to the oil and natural gas cost pools in accordance with the full cost method, resulting in a decrease in the depletable base, and from upward revisions of oil and natural gas reserves due to higher rolling average prices.

Impairment of assets

During the year ended September 30, 2017, Kaupulehu 2007 recorded a \$155,000 impairment of its residential parcel held for sale as a result of changes in fair values for comparable real estate.

Under the full cost method of accounting, the Company performs quarterly oil and natural gas ceiling test calculations. Barnwell's net capitalized costs exceeded the ceiling limitations at June 30, 2016. As such, Barnwell reduced the carrying value of its oil and natural gas properties by \$1,154,000 during the year ended September 30, 2016. No such reduction was necessary during the current year.

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 decreased \$91,000 (94%) to \$6,000 in fiscal 2017, as compared to \$97,000 in fiscal 2016, as Barnwell repaid all of its remaining long-term debt during fiscal 2016.

Gain on sales of assets

On May 2, 2017, the Company's New York office was sold for approximately \$2,360,000, net of related costs, resulting in a gain of \$527,000, which was recognized during the year ended September 30, 2017.

In September 2015, Barnwell sold its interests in its principal oil and natural gas properties located in the Dunvegan and Belloy areas of Alberta, Canada. The disposition was recorded in the fourth quarter of fiscal 2015 using preliminary purchase price adjustments. The purchase price was subject to final adjustments in accordance with the terms of the purchase and sale agreement. Barnwell and the purchaser updated the estimated purchase price adjustments during fiscal 2016, which resulted in the recognition of an additional gain in the amount of \$472,000 during the year ended September 30, 2016.

Equity in income of affiliates

Barnwell's investment in the Kukio Resort land development partnerships is accounted for using the equity method of accounting. Barnwell was allocated partnership income of \$2,276,000 in fiscal 2017, as compared to \$2,624,000 in fiscal 2016. The decrease in the allocated partnership income in the current year period is primarily due to decreased lot sales.

During the year ended September 30, 2017, Barnwell received net cash distributions in the amount of \$3,223,000 from the Kukio Resort land development partnerships after distributing \$396,000 to non-controlling interests. During the year ended September 30, 2016, Barnwell received net cash distributions in the amount of \$5,320,000 from the Kukio Resort land development partnerships after distributing \$40,000 to non-controlling interests.

Income taxes

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

	Year ended September 30,	
	2017	2016
United States	\$1,522,000	\$(360,000)
Canada	(1,431,000)	(3,977,000)
	\$91,000	\$(4,337,000)

Barnwell's effective consolidated income tax rate for fiscal 2017, after adjusting earnings (loss) before income taxes for non-controlling interests, was (1187)%, as compared to 17% for fiscal 2016.

Consolidated taxes do not bear a customary relationship to pretax results due primarily to the fact that the Company is taxed separately in Canada based on Canadian source operations and in the U.S. based on consolidated operations, and essentially all deferred tax assets, net of relevant offsetting deferred tax liabilities and any amounts estimated to be realizable through tax carryback strategies, are not estimated to have a future benefit as tax credits or deductions. Income from our non-controlling interest in the Kukio Resort land development partnerships is treated as non-unitary for state of Hawaii unitary filing purposes, thus unitary Hawaii losses provide limited sheltering of such non-unitary income. In addition, the current Canadian income tax benefit for the year ended September 30, 2017 includes a \$369,000 benefit from the lapsing of the statute of limitations on a previously accrued uncertain tax position in addition to the benefit attributable to the current year Canadian jurisdiction pretax loss.

Net earnings attributable to non-controlling interests

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

Net earnings attributable to non-controlling interests totaled \$1,143,000 in fiscal 2017, as compared to \$751,000 in fiscal 2016. The \$392,000 (52%) increase is primarily due to non-controlling interest's portion of the \$2,500,000 land investment payment received by Kaupulehu Developments from KD II in the current year, whereas no such payment was received in the prior year.

Inflation

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

Impact of Recently Issued Accounting Standards on Future Filings

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. Subsequent to the issuance of ASU No. 2014-09, the FASB issued additional ASUs related to this revenue guidance. In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations," which is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, "Identifying Performance Obligations and Licensing," which clarifies the implementation guidance on identifying performance obligations and licenses in customer contracts. In May 2016, the FASB issued ASU No. 2016-12, "Narrow-Scope Improvements and Practical Expedients," which addresses completed contracts and contract modifications at transition, noncash consideration, the presentation of sales taxes and other taxes collected from customers, and assessment of collectibility when determining whether a transaction represents a valid contract. In December 2016, the FASB issued ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606," which includes thirteen technical corrections or improvements that affect only narrow aspects of the guidance in ASU No. 2014-09. ASU No. 2014-09 and all of the related ASUs have the same effective date. On July 9, 2015, the FASB deferred the effective date of ASU No. 2014-09 for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted as of the original effective date, which is annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. The new standard is to be applied retrospectively and permits the use of either the retrospective or cumulative effect transition method. Barnwell is currently evaluating the effect that the adoption of this update will have on the consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The amendment is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those annual periods. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which seeks to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. In general, a right-of-use asset and lease obligation will be recorded for leases exceeding a twelve-month term whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption must be calculated using the applicable incremental borrowing rate at the date of adoption. This ASU is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, and requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. Barnwell is currently evaluating the effect that the adoption of this update will have on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, "Simplifying the Transition to the Equity Method of Accounting," which eliminates the requirement that when an investment subsequently qualifies for use of the equity method as a result of an increase in level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. This ASU requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and to adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. In addition, the ASU requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. This ASU is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods, with early adoption permitted. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. This ASU is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

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

In October 2016, the FASB issued ASU No. 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory," which provides guidance on recognition of current income tax consequences for intra-entity asset transfers (other than inventory) at the time of transfer. This represents a change from current GAAP, where the consolidated tax consequences of intra-entity asset transfers are deferred until the transferred asset is sold to a third party or otherwise recovered through use. The guidance is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption at the

beginning of an annual period is permitted. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, "Interests Held through Related Parties That Are under Common Control," which modifies existing guidance with respect to how a decision maker that holds an indirect interest in a VIE through a common control party determines whether it is the primary beneficiary of the VIE as part of the analysis of whether the VIE would need to be consolidated. Under this ASU, a decision maker would need to consider only its proportionate indirect interest in the VIE held through a common control party. This ASU is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows - Restricted Cash," which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Thus, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and the end-of-period total amounts set forth on the statement of cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. The amendments should be applied using a retrospective transition method to each period presented. The adoption of this update will impact the presentation of the cash flow statements if Barnwell has restricted cash at the time of adoption.

In February 2017, the FASB issued ASU No. 2017-05, "Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets," which clarifies the scope of Subtopic 610-20 and adds guidance for partial sales of nonfinancial assets. ASU No. 2017-05 is effective at the same time as the revenue standard in ASU No. 2014-09, "Revenue from Contracts with Customers" goes into effect, which is annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. Barnwell is currently evaluating the effect that the adoption of this update will have on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires employers to report the service cost component separate from the other components of net pension benefit costs. The changes to the standard require employers to report the service cost component in the same line item as other compensation costs arising from services rendered by employees during the reporting period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside the subtotal of income from operations, if one is presented. If a separate line item is not used, the line item used in the income statement must be disclosed. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017. The adoption of this update will impact the presentation and disclosure of net pension benefit costs.

In May 2017, the FASB issued ASU No. 2017-09, "Stock Compensation - Scope of Modification Accounting," which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption 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, short-term investments and land investment segment proceeds. At September 30, 2017, Barnwell had \$20,344,000 in working capital.

Cash Flows

Cash flows used by operating activities totaled \$2,119,000 for fiscal 2017, as compared to cash flows provided by operating activities of \$1,770,000 for the same period in fiscal 2016. This \$3,889,000 decrease was primarily due to net proceeds of \$5,132,000 received from the sale of the real estate held for sale in April 2016, whereas there was no such item in the current year, and a \$1,430,000 decrease in the amount of income distributed from affiliates in the current year, which were partially offset by increases in both oil and natural gas and contract drilling operating results.

Net cash provided by investing activities totaled \$2,911,000 for fiscal 2017, as compared to \$9,378,000 for fiscal 2016. The \$6,467,000 decrease in investing cash flows was primarily due to a \$7,089,000 release of restricted cash in the prior year and \$4,413,000 in net purchases of certificates of deposit in the current year. These decreases were partially offset by a \$2,486,000 increase in proceeds from the sales of assets related to the sale of the New York office and certain oil and natural gas properties in the current year and an increase of \$2,283,000 in proceeds from the sale of interest in leasehold land net of fees paid in the current year.

Cash flows used in financing activities totaled \$370,000 for fiscal 2017, as compared to \$4,252,000 for fiscal 2016. The \$3,882,000 increase in financing cash flows was primarily due to \$3,440,000 in debt repayments in the prior year as a result of the sale of the real estate held for sale in April 2016 and a \$318,000 increase in the release of restricted cash in the current year.

Credit Arrangements

In June 2016, Barnwell entered into an agreement with Royal Bank of Canada for a revolving demand facility in the amount of \$500,000 Canadian dollars. Borrowings under this facility were \$0 at September 30, 2016. The obligations under the credit facility were secured by a \$500,000 Canadian dollar guaranteed investment certificate pledged to Royal Bank of Canada, which is classified as "Restricted cash" on the accompanying Consolidated Balance Sheet at U.S. \$381,000, at the September 30, 2016 exchange rate. In April 2017, the revolving demand facility was canceled and the guaranteed investment certificate matured and the funds were reclassified to cash.

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

Oil and Natural Gas Capital Expenditures

Barnwell's oil and natural gas capital expenditures, including accrued capital expenditures and acquisitions of oil and natural gas properties and excluding additions and revisions to estimated asset retirement obligations, decreased \$924,000 from \$1,773,000 in fiscal 2016 to \$849,000 in fiscal 2017. Of the \$849,000 of total oil and natural gas properties investments for fiscal 2017, \$451,000 (53%) was for the acquisition of oil and natural gas leases and additional working interests in oil and natural gas properties and \$398,000 (47%) was for well improvements.

Barnwell estimates that investments in oil and natural gas properties for fiscal 2018 will range from \$1,500,000 to \$2,000,000. 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

2017 Acquisition

On September 27, 2017, Barnwell completed the acquisition of additional working interests in oil and natural gas properties located in the Spirit River area of Alberta, Canada for cash consideration of \$381,000.

2017 Dispositions

In June 2017, Barnwell entered into a Purchase and Sale Agreement with an independent third party and sold a portion of its oil and natural gas properties located in the Progress and Valhalla areas of Alberta, Canada. The sales price per the agreement was adjusted to \$1,076,000 for customary purchase price adjustments to reflect the economic activity from the effective date of April 1, 2017 to the closing date. The final determination of the customary adjustments to the purchase price has not yet been made however it is not expected to result in a material adjustment. From Barnwell's net proceeds, \$593,000 was withheld and remitted by the buyer to the Canada Revenue Agency for potential amounts due for Barnwell's Canadian income taxes related to the sale. Net oil and natural gas production from this property was approximately 11,000 Boe, or approximately 7% of total net oil and natural gas production, for the year ended September 30, 2016. As of September 30, 2016, estimated net proved oil and natural gas reserve volumes associated with these properties was 95,000 Boe, or approximately 14% of the total reserve volumes at that date.

During the year ended September 30, 2017, Barnwell also sold miscellaneous oil and natural gas properties for proceeds of \$208,000, of which \$72,000 was withheld and remitted by the buyer to the Canada Revenue Agency for potential amounts due for Barnwell's Canadian income taxes related to the sales.

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 in fiscal 2017 as these sales to multiple counterparties in unrelated transactions did not individually, or in aggregate, result in a significant alteration of the relationship between capitalized costs and proved reserves.

2016 Acquisition

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

2015 Disposition

Barnwell entered into a purchase and sale agreement with an independent third party and, in September 2015, sold its interests in its principal oil and natural gas properties located in the Dunvegan and Belloy areas of Alberta, Canada. The disposition was recorded in fiscal 2015 using preliminary purchase price adjustments. Barnwell and the purchaser updated and finalized the purchase price adjustments in accordance with the terms of the purchase and sale agreement during fiscal 2016 which resulted in additional proceeds of \$493,000 and the recognition of an additional gain in the amount of \$472,000 during the year ended September 30, 2016.

Asset Retirement Obligation

In July 2014, the Alberta Energy Regulator introduced an Inactive Well Compliance Program which resulted in the acceleration of expenditures to suspend and/or abandon long-term inactive wells. Under the program all inactive wells that were noncompliant as of April 1, 2015 need to be brought into compliance by the operator within five years, in increments of not less than 20 percent per year. The impact of this program was incorporated into Barnwell's estimate of its asset retirement obligations beginning in fiscal 2014. At September 30, 2017, the current portion of the asset retirement obligation was \$1,231,000.

Contractual Obligations

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

Contingencies

Environmental Matters

In February 2016, a gas migration was detected at one of our previously abandoned non-operated wells in Alberta, Canada. Barnwell's working interest in the well is 50% and as non-operator we have no control over the actual cost or timing of the remediation. In February 2016, we accrued approximately \$200,000 for estimated probable environmental remediation costs, which was the balance of the accrual at September 30, 2016. However, based on recent information from the operator of the well, the cost to remediate will be less than originally estimated and the remaining liability is approximately \$2,000 at September 30, 2017.

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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors
Barnwell Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Barnwell Industries, Inc. and subsidiaries (Company) as of September 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (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, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Honolulu, Hawaii
December 20, 2017

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30,	
	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$16,281,000	\$15,550,000
Certificates of deposit	4,413,000	—
Restricted cash	—	381,000
Accounts and other receivables, net of allowance for doubtful accounts	1,414,000	1,228,000
Income taxes receivable	1,145,000	378,000
Asset held for sale	—	1,829,000
Investment held for sale	1,037,000	1,192,000
Other current assets	852,000	556,000
Total current assets	25,142,000	21,114,000
Deferred income tax assets	300,000	—
Investments	2,209,000	3,552,000
Property and equipment, net	5,369,000	6,902,000
Total assets	\$33,020,000	\$31,568,000
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$1,185,000	\$1,423,000
Accrued capital expenditures	348,000	439,000
Accrued compensation	390,000	449,000
Accrued operating and other expenses	1,386,000	1,031,000
Current portion of asset retirement obligation	1,231,000	1,017,000
Other current liabilities	258,000	377,000
Total current liabilities	4,798,000	4,736,000
Deferred rent	21,000	—
Liability for retirement benefits	4,150,000	6,707,000
Asset retirement obligation	5,632,000	6,177,000
Deferred income tax liabilities	236,000	204,000
Total liabilities	14,837,000	17,824,000
Commitments and contingencies (Note 17)		
Equity:		
Common stock, par value \$0.50 per share; authorized, 20,000,000 shares: 8,445,060 issued at September 30, 2017 and 2016	4,223,000	4,223,000
Additional paid-in capital	1,350,000	1,345,000
Retained earnings	15,023,000	13,852,000
Accumulated other comprehensive loss, net	(1,058,000)	(3,920,000)
Treasury stock, at cost: 167,900 shares at September 30, 2017 and 2016	(2,286,000)	(2,286,000)
Total stockholders' equity	17,252,000	13,214,000
Non-controlling interests	931,000	530,000
Total equity	18,183,000	13,744,000
Total liabilities and equity	\$33,020,000	\$31,568,000
See Notes to Consolidated Financial Statements		

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended September 30,	
	2017	2016
Revenues:		
Oil and natural gas	\$4,383,000	\$3,177,000
Contract drilling	3,938,000	2,233,000
Sale of interest in leasehold land	4,503,000	2,255,000
Residential real estate	—	5,700,000
Gas processing and other	206,000	262,000
	13,030,000	13,627,000
Costs and expenses:		
Oil and natural gas operating	3,028,000	3,142,000
Contract drilling operating	3,231,000	2,098,000
Residential real estate	—	5,510,000
General and administrative	6,976,000	6,701,000
Depletion, depreciation, and amortization	1,203,000	1,607,000
Impairment of assets	155,000	1,154,000
Gain on sales of assets	(527,000)	(472,000)
Interest expense	6,000	97,000
	14,072,000	19,837,000
Loss before equity in income of affiliates and income taxes	(1,042,000)	(6,210,000)
Equity in income of affiliates	2,276,000	2,624,000
Earnings (loss) before income taxes	1,234,000	(3,586,000)
Income tax benefit	(1,080,000)	(722,000)
Net earnings (loss)	2,314,000	(2,864,000)
Less: Net earnings attributable to non-controlling interests	1,143,000	751,000
Net earnings (loss) attributable to Barnwell Industries, Inc. stockholders	\$ 1,171,000	\$(3,615,000)
Basic net earnings (loss) per common share attributable to Barnwell Industries, Inc. stockholders	\$0.14	\$(0.44)
Diluted net earnings (loss) per common share attributable to Barnwell Industries, Inc. stockholders	\$0.14	\$(0.44)
Weighted-average number of common shares outstanding:		
Basic	8,277,160	8,277,160
Diluted	8,277,160	8,277,160
See Notes to Consolidated Financial Statements		

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

	Year ended September 30,	
	2017	2016
Net earnings (loss)	\$2,314,000	\$(2,864,000)
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of taxes of \$0	147,000	87,000
Retirement plans:		
Amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0	326,000	168,000
Net actuarial gains (losses) arising during the period, net of taxes of \$0	2,389,000	(2,053,000)
Total other comprehensive income (loss)	2,862,000	(1,798,000)
Total comprehensive income (loss)	5,176,000	(4,662,000)
Less: Comprehensive income attributable to non-controlling interests	1,143,000	751,000
Comprehensive income (loss) attributable to Barnwell Industries, Inc.	\$4,033,000	\$(5,413,000)
See Notes to Consolidated Financial Statements		

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

Years ended September 30, 2017 and 2016

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interests	Total Equity
Balance at September 30, 2015	8,277,160	\$4,223,000	\$1,335,000	\$17,467,000	\$(2,122,000)	\$(2,286,000)	\$645,000	\$19,262,000
Distributions to non-controlling interests	—	—	—	—	—	—	(866,000)	(866,000)
Net earnings (loss)	—	—	—	(3,615,000)	—	—	751,000	(2,864,000)
Share-based compensation	—	—	10,000	—	—	—	—	10,000
Foreign currency translation adjustments, net of taxes of \$0	—	—	—	—	87,000	—	—	87,000
Retirement plans: Amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0	—	—	—	—	168,000	—	—	168,000
Net actuarial losses arising during the period, net of taxes of \$0	—	—	—	—	(2,053,000)	—	—	(2,053,000)
Balance at September 30, 2016	8,277,160	4,223,000	1,345,000	13,852,000	(3,920,000)	(2,286,000)	530,000	13,744,000
Contributions from non-controlling interests	—	—	—	—	—	—	6,000	6,000
Distributions to non-controlling interests	—	—	—	—	—	—	(748,000)	(748,000)
Net earnings	—	—	—	1,171,000	—	—	1,143,000	2,314,000
Share-based compensation	—	—	5,000	—	—	—	—	5,000

Foreign currency translation	—	—	—	—	147,000	—	—	147,000
adjustments, net of taxes of \$0								
Retirement plans: Amortization of accumulated other comprehensive loss into net	—	—	—	—	326,000	—	—	326,000
periodic benefit cost, net of taxes of \$0								
Net actuarial gains arising during the period, net of taxes of \$0	—	—	—	—	2,389,000	—	—	2,389,000
Balance at September 30, 2017	8,277,160	\$4,223,000	\$1,350,000	\$15,023,000	\$(1,058,000)	\$(2,286,000)	\$931,000	\$18,183,000

See Notes to Consolidated Financial Statements

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

	Year ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net earnings (loss)	\$2,314,000	\$(2,864,000)
Adjustments to reconcile net earnings (loss) to net cash (used in) provided by operating activities:		
Equity in income of affiliates	(2,276,000)	(2,624,000)
Depletion, depreciation, and amortization	1,203,000	1,607,000
Impairment of assets	155,000	1,154,000
Gain on sale of asset	(527,000)	—
Gain on sale of oil and natural gas properties	—	(472,000)
Sale of interest in leasehold land, net of fees paid	(4,198,000)	(1,915,000)
Distributions of income from equity investees	2,284,000	3,714,000
Retirement benefits expense	537,000	519,000
Accretion of asset retirement obligation	433,000	464,000
Deferred income tax benefit	(268,000)	(71,000)
Asset retirement obligation payments	(833,000)	(459,000)
Share-based compensation expense (benefit)	15,000	(22,000)
Deferred rent liability	21,000	—
Retirement plan contributions and payments	(365,000)	(1,106,000)
Real estate held for sale	—	5,132,000
Decrease from changes in current assets and liabilities	(614,000)	(1,287,000)
Net cash (used in) provided by operating activities	(2,119,000)	1,770,000
Cash flows from investing activities:		
Purchases of certificates of deposit	(7,139,000)	—
Proceeds from the maturity of certificates of deposit	2,726,000	—
Decrease in restricted cash	—	7,089,000
Distributions from equity investees in excess of earnings	1,335,000	1,646,000
Proceeds from sale of interest in leasehold land, net of fees paid	4,198,000	1,915,000
Proceeds from the sale of assets, net of closing costs	2,360,000	—
Proceeds from sale of oil and natural gas assets	619,000	493,000
Payments to acquire oil and natural gas properties	(381,000)	(769,000)
Capital expenditures	(807,000)	(996,000)
Net cash provided by investing activities	2,911,000	9,378,000
Cash flows from financing activities:		
Repayments of long-term debt	—	(3,440,000)
Decrease in restricted cash	372,000	54,000
Contributions from non-controlling interests	6,000	—
Distributions to non-controlling interests	(748,000)	(866,000)
Net cash used in financing activities	(370,000)	(4,252,000)
Effect of exchange rate changes on cash and cash equivalents	309,000	183,000
Net increase in cash and cash equivalents	731,000	7,079,000
Cash and cash equivalents at beginning of year	15,550,000	8,471,000
Cash and cash equivalents at end of year	\$16,281,000	\$15,550,000
See Notes to Consolidated Financial Statements		

BARNWELL INDUSTRIES, INC.

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

Principles of Consolidation

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

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

Use of Estimates in the Preparation of Financial Statements

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

Reclassification

Fees related to percentage of sales payments have been reclassified to general and administrative expenses rather than being presented net with sale of interest in leasehold land revenues for the prior year to conform to the current year presentation.

Cash and Cash Equivalents

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

Certificates of deposit

Certificates of deposit include certificates of deposit at various financial institutions with original maturities in excess of three months.

Restricted Cash

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, and certificates of deposit. We maintain bank account balances with high quality financial institutions which often exceed insured limits. We have not experienced any losses with these accounts and believe that we are not exposed to any significant credit risk on cash. Certificates of deposit are maintained at separate high-quality financial institutions within insured limits and are therefore not exposed to any credit risk.

Accounts and Other Receivables

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

Investment Held for Sale

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

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

Investments in Real Estate

Barnwell accounts for sales of Increment I and Increment II leasehold land interests under the full accrual method. Gains from such sales were recognized when the buyer's investments were adequate to demonstrate a commitment to pay for the property, risks and rewards of ownership transferred to the buyer,

and Barnwell did not have a substantial continuing involvement with the property sold. With regard to payments Kaupulehu Developments is entitled to receive from KD I and KD II, the percentage of sales payments from KD I and KD II and percentage of distributions from KD II are contingent future profits which will be recognized when they are realized. All costs of the sales of Increment I and Increment II leasehold land interests were recognized at the time of sale and were not deferred to future periods when any contingent profits will be recognized.

Equity Method Investments

Affiliated companies, which are limited partnerships or similar entities, in which Barnwell holds more than a 3% to 5% ownership interest and does not control, are accounted for as equity method investments. Equity method investment adjustments include Barnwell's proportionate share of investee income or loss, adjustments to recognize certain differences between Barnwell's carrying value and Barnwell's equity in net assets of the investee at the date of investment, impairments and other adjustments required by the equity method. Gains or losses are realized when such investments are sold.

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

Variable Interest Entities

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

Barnwell analyzes its unconsolidated affiliates in which it has an investment to determine whether the unconsolidated entities are VIEs and, if so, whether the Company is the primary beneficiary. This analysis includes a qualitative review based on an evaluation of the design of the entity, its organizational structure, including decision making ability and financial agreements, as well as a quantitative review. Our unconsolidated affiliates that have been determined to be VIEs are accounted under the equity method because we do not have a controlling financial interest and are therefore not the VIE's primary beneficiary (see Note 8).

Oil and Natural Gas Properties

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

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

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

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

Acquisitions

In accordance with the guidance for business combinations, Barnwell determines whether an acquisition is a business combination, which requires that the assets acquired and liabilities assumed constitute a business. Each business combination is then accounted for by applying the acquisition method of accounting. If the assets acquired are not a business, the Company accounts for the transaction as an asset acquisition. Under both methods purchase prices are allocated to acquired assets and assumed liabilities based on their estimated fair value at the time of the acquisition. For transactions that are business combinations, the Company evaluates the existence of goodwill or a gain from a bargain purchase. The Company capitalizes acquisition-related costs and fees associated with asset acquisitions and immediately expenses acquisition-related costs and fees associated with business combinations.

Long-lived Assets

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

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

Share-based Compensation

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

Retirement Plans

Barnwell accounts for its defined benefit pension plan, Supplemental Employee Retirement Plan, and postretirement medical insurance benefits plan by recognizing the over-funded or under-funded status as an asset or liability in its Consolidated Balance Sheets and recognizes changes in that funded status in the year in which the changes occur through comprehensive income. See further discussion at Note 12.

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

At the end of each year, Barnwell determines the discount rate to be used to calculate the present value of plan liabilities and the net periodic benefit cost. The discount rate is an estimate of the current interest rate at which the retirement plan liabilities could be effectively settled at the end of the year. In estimating this rate, Barnwell performs a cash-flow matching discount rate analysis developed using high-quality corporate bonds yield. The discount rate used to value the future benefit obligation as of each year-end is the rate used to determine the periodic benefit cost in the following year.

The expected long-term return on assets assumption for the pension plans represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. The actual fair value of plan assets and estimated rate of return is used to determine the expected investment return during the year. The estimated rate of return on plan assets is based on an estimate of future experience for plan asset returns, the mix of plan assets, current market conditions, and expectations for future market conditions. A decrease (increase) of 50 basis points in the expected return on assets assumption

would increase (decrease) pension expense by approximately \$47,000 based on the assets of the plan at September 30, 2017.

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

Asset Retirement Obligation

Barnwell accounts for asset retirement obligations by recognizing the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. Barnwell estimates the fair value of asset retirement obligations based on the projected discounted future cash outflows required to settle abandonment and restoration liabilities. Such an estimate requires assumptions and judgments regarding the existence of liabilities, the amount and timing of cash outflows required to settle the liability, what constitutes adequate restoration, inflation factors, credit adjusted discount rates, and consideration of changes in legal, regulatory, environmental and political environments. Abandonment and restoration cost estimates are determined in conjunction with Barnwell's reserve engineers based on historical information regarding costs incurred to abandon and restore similar well sites, information regarding current market conditions and costs, and knowledge of subject well sites and properties. These assumptions represent Level 3 inputs.

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

Income Taxes

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

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

Contract Drilling

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

Environmental

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

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

Foreign Currency Translation

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

Fair Value Measurements

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

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

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

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

Recently Adopted Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 Company adopted the provisions of this ASU for the annual reporting period ended September 30, 2017. The adoption of this update did not have a material impact on Barnwell’s consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, “Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items,” which eliminates the concept of an extraordinary item from GAAP. As a result, an entity will no longer be required to separately classify, present and disclose extraordinary events and transactions. The Company adopted the provisions of this ASU effective October 1, 2016. The adoption of this update did not have a material impact on Barnwell’s consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Amendments to the Consolidation Analysis," which simplifies the current consolidation guidance and will require companies to reevaluate limited partnerships and similar entities for consolidation. The Company adopted the provisions of this ASU effective October 1, 2016. The adoption of this update did not have a material impact on Barnwell’s consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This amendment was issued to simplify the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability. This will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The Company adopted the provisions of this ASU effective October 1, 2016. The adoption of this update did not have a material impact on Barnwell’s consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-12, "Plan Accounting: (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient." This ASU aims to simplify the accounting and presentation of plan accounting. Part I of this ASU requires fully benefit-responsive investment contracts to be measured at contract value instead of the current fair value measurement. Part II simplifies the investment disclosure requirements for employee benefit plans. Part III provides an alternative measurement date for fiscal periods that do not coincide with a month-end date. The Company adopted the provisions of this ASU effective October 1, 2016. The adoption of this update did not have a material impact on Barnwell’s consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments." This ASU eliminates the requirement to account for business combination measurement period adjustments retrospectively. Measurement period adjustments will now be recognized prospectively in the reporting period in which the adjustment amount is determined. The nature and amount of any measurement period adjustments recognized during the reporting period must be disclosed, including the value of the adjustment to each current period income statement line item relating to the income effects that would have been recognized in previous periods if the adjustment to provisional amounts were recognized as of the acquisition date. The Company adopted the provisions of this ASU effective October

1, 2016. The adoption of this update did not have a material impact on Barnwell's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business," which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in ASU No. 2017-01 provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If, however, the screen is not met, then the amendments in this ASU (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. Finally, the amendments in this ASU narrow the definition of the term "output" so that it is consistent with the manner in which outputs are described in Topic 606. We elected to early adopt this pronouncement effective July 1, 2017. As a result of adopting this pronouncement we accounted for certain transactions as asset acquisitions which would have qualified as business combinations under the previous standard (see Note 9).

2. EARNINGS (LOSS) PER COMMON SHARE

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

Options to purchase 593,750 and 621,250 shares of common stock were excluded from the computation of diluted shares for the years ended September 30, 2017 and 2016, respectively, as their inclusion would have been antidilutive.

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

	Year ended September 30, 2017		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net earnings per share	\$1,171,000	8,277,160	\$ 0.14
Effect of dilutive securities - common stock options	—	—	
Diluted net earnings per share	\$1,171,000	8,277,160	\$ 0.14
	Year ended September 30, 2016		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	\$(3,615,000)	8,277,160	\$ (0.44)
Effect of dilutive securities - common stock options	—	—	
Diluted net loss per share	\$(3,615,000)	8,277,160	\$ (0.44)

3. SHARE-BASED PAYMENTS

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

	Year ended September 30,	
	2017	2016
Share-based expense (benefit)	\$ 15,000	\$(22,000)
Income tax effect	\$—	\$—

Share-based compensation expense (benefit) recognized in earnings (loss) for the years ended September 30, 2017 and 2016 are reflected in "General and administrative" expenses in the Consolidated Statements of Operations. There was no impact on income taxes for the years ended September 30, 2017 and 2016 due to a full valuation allowance on the related deferred tax asset. As of September 30, 2017, there was \$1,000 of total unrecognized compensation cost related to nonvested share options. That cost is expected to be recognized over 0.2 years.

Description of Share-Based Payment Arrangements

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

The stockholder-approved 2008 Equity Incentive Plan provides for the issuance of incentive stock options, nonstatutory stock options, stock options with stock appreciation rights, restricted stock, restricted stock units and performance units, qualified performance-based awards, and stock grants to employees, consultants and non-employee members of the Board of Directors. 800,000 shares of Barnwell common stock have been reserved for issuance and as of September 30, 2017, a total of 62,500 share options remain available for grant. Stock options grants include nonqualified stock options that have exercise prices equal to Barnwell's stock price on the date of grant, vest annually over a service period of four years commencing one year from the date of grant and expire ten years from the date of grant. Certain options have stock appreciation rights that permit the holder to receive stock, cash or a combination thereof equal to the amount by which the fair market value, at the time of exercise of the option, exceeds the option price.

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

Equity-classified Awards

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

A summary of the activity in Barnwell's equity-classified share options from October 1, 2016 through September 30, 2017 is presented below:

Options	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at October 1, 2016	30,000	\$ 3.01		
Granted	—	—		
Exercised	—	—		
Expired/Forfeited	—	—		
Outstanding at September 30, 2017	30,000	\$ 3.01	6.2	\$ —
Exercisable at September 30, 2017	22,500	\$ 3.01	6.2	\$ —

Total share-based compensation expense for equity-classified awards vested in the years ended September 30, 2017 and 2016 was \$5,000 and \$10,000, respectively.

Liability-classified Awards

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

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

	Year ended September 30,	
	2017	2016
Expected volatility range	53.1% to 69.5%	56.7% to 72.7%
Weighted-average volatility	64.6%	63.6%
Expected dividends	None	None
Expected term (in years)	0.2 to 6.2	1.2 to 7.2
Risk-free interest rate	1.1% to 2.1%	0.6% to 1.4%
Expected forfeitures	None	None

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

A summary of the activity in Barnwell's liability-classified share options from October 1, 2016 through September 30, 2017 is presented below:

Options	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at October 1, 2016	591,250	\$ 7.98		
Granted	—	—		
Exercised	—	—		
Expired/Forfeited	(27,500)	8.18		
Outstanding at September 30, 2017	563,750	\$ 7.97	1.6	\$ —
Exercisable at September 30, 2017	556,250	\$ 8.04	1.5	\$ —

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

	Year ended September 30,	
	2017	2016
Due to vesting	\$2,000	\$4,000
Due to remeasurement	8,000	(36,000)
Total share-based compensation expense (benefit) for liability-based awards	\$10,000	\$(32,000)

4. ACCOUNTS RECEIVABLE AND CONTRACT COSTS

Accounts receivable are net of allowances for doubtful accounts of \$46,000 and \$40,000 as of September 30, 2017 and 2016, respectively. Included in accounts receivable are contract retainage balances of \$142,000 and \$202,000 as of September 30, 2017 and 2016, respectively. The retainage balance as of September 30, 2017 is expected to be collected within one year, generally within 45 days after the related contracts have received final acceptance and approval.

Costs and estimated earnings on uncompleted contracts are as follows:

	September 30,	
	2017	2016
Costs incurred on uncompleted contracts	\$2,194,000	\$966,000
Estimated earnings	89,000	70,000
	2,283,000	1,036,000
Less billings to date	1,947,000	1,112,000
	\$336,000	\$(76,000)

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

	September 30,	
	2017	2016
Costs and estimated earnings in excess of billings on uncompleted contracts (included in other current assets)	\$376,000	\$89,000
Billings in excess of costs and estimated earnings on uncompleted contracts (included in other current liabilities)	(40,000)	(165,000)
	\$336,000	\$(76,000)

5. ASSET HELD FOR SALE

The Company's New York office was designated as an asset held for sale and the carrying value in the aggregate amount of \$1,829,000 was included in "Asset held for sale" on the Company's Consolidated Balance Sheet at September 30, 2016. On May 2, 2017, the Company's New York office was sold for approximately \$2,360,000, net of related costs, resulting in a gain of \$527,000, which was recognized in the year ended September 30, 2017.

6. INVESTMENT HELD FOR SALE

At September 30, 2017, Kaupulehu 2007 owned one residential lot available for sale in the Lot 4A Increment I area located in the North Kona District of the island of Hawaii, north of Hualalai Resort at Historic Ka`upulehu, between the Queen Kaahumanu Highway and the Pacific Ocean.

During the year ended September 30, 2017, Kaupulehu 2007 recorded a \$155,000 impairment of the residential lot held for sale as a result of changes in fair values for comparable real estate.

7. RESIDENTIAL REAL ESTATE

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

8. INVESTMENTS

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

	September 30,	
	2017	2016
Investment in Kukio Resort land development partnerships	\$2,159,000	\$3,502,000
Investment in leasehold land interest – Lot 4C	50,000	50,000
Total non-current investments	\$2,209,000	\$3,552,000

Investment in Kukio Resort land development partnerships

On November 27, 2013, Barnwell, through a wholly-owned subsidiary, entered into two limited liability limited partnerships, KD Kona 2013 LLLP and KKM Makai, LLLP, and indirectly acquired a 19.6%

non-controlling ownership interest in each of KD Kukio Resorts, LLLP, KD Maniniowali, LLLP and KD Kaupulehu, LLLP for \$5,140,000. These entities own certain real estate and development rights interests in the Kukio, Maniniowali and Kaupulehu portions of Kukio Resort, a private residential community on the Kona coast of the island of Hawaii, as well as Kukio Resort’s real estate sales office operations. KD Kaupulehu, LLLP, which is comprised of KD I and KD II, is the developer of Kaupulehu Lot 4A Increments I and II, the area in which Barnwell has interests in percentage of sales payments and percentage of future distributions to KD II’s members. Barnwell’s investment in these entities is accounted for using the equity method of accounting. The partnerships derive income from the sale of residential parcels, of which 23 lots remained to be sold at Kaupulehu Increment I, as well as from commissions on real estate sales by the real estate sales office.

During the year ended September 30, 2017, Barnwell received net cash distributions in the amount of \$3,223,000 from the Kukio Resort land development partnerships after distributing \$396,000 to non-controlling interests. During the year ended September 30, 2016, Barnwell received net cash distributions in the amount of \$5,320,000 from the Kukio Resort land development partnerships after distributing \$40,000 to non-controlling interests.

Equity in income of affiliates was \$2,276,000 and \$2,624,000 for the years ended September 30, 2017 and 2016, respectively. The equity in the underlying net assets of the Kukio Resort land development partnerships exceeds the carrying value of the investment in affiliates by approximately \$322,000 as of September 30, 2017, which is attributable to differences in the value of capitalized development costs and a note receivable. The basis difference will be recognized as the partnerships sell lots and recognize the associated costs and sell memberships for the Kuki`o Golf and Beach Club for which the receivable relates. The basis difference adjustments of \$28,000 and \$39,000, for the years ended September 30, 2017 and 2016, respectively, increased equity in income of affiliates.

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

	Year ended September 30,	
	2017	2016
Revenue	\$31,578,000	\$33,874,000
Gross profit	\$14,584,000	\$15,332,000
Net earnings	\$11,107,000	\$12,212,000

Sale of interest in leasehold land

Kaupulehu Developments has the right to receive payments from KD I and KD II resulting from the sale of lots and/or residential units within approximately 870 acres of the Kaupulehu Lot 4A area by KD I and KD II in two increments (“Increment I” and “Increment II”) (see Note 19).

With respect to Increment I, Kaupulehu Developments is entitled to receive payments from KD I based on the following percentages of the gross receipts from KD I’s sales of single-family residential lots in Increment I: 9% of the gross proceeds from single-family lot sales up to aggregate gross proceeds of \$100,000,000; 10% of such aggregate gross proceeds greater than \$100,000,000 up to \$300,000,000; and 14% of such aggregate gross proceeds in excess of \$300,000,000. In fiscal 2017, two single-family lots in Increment I were sold bringing the total amount of gross proceeds from single-family lot sales through September 30, 2017 to \$208,000,000. As of September 30, 2017, 23 single-family lots, of the 80 lots developed within Increment I, remained to be sold.

Kaupulehu Developments is entitled to receive payments from KD II resulting from the sale of lots and/or residential units by KD II within Increment II. The payments are based on a percentage of gross receipts from KD II's sales ranging from 8% to 10% of the price of improved or unimproved lots or 2.60% to 3.25% of the price of units constructed on a lot, to be determined in the future depending upon a number of variables, including whether the lots are sold prior to improvement. Two ocean front parcels approximately two to three acres in size fronting the ocean were developed within Increment II by KD II, of which one was sold in fiscal 2017 and one was sold in fiscal 2016. The remaining acreage within Increment II is not yet under development. It is uncertain when or if KD II will develop the other areas of Increment II.

Kaupulehu Developments is also entitled to receive 50% of distributions otherwise payable from KD II to its members after the members of KD II have received distributions equal to the original basis of capital invested in the project, up to \$8,000,000. In fiscal 2017, the members of KD II received cumulative distributions equal to the original basis of capital invested in the project after which Kaupulehu Developments received \$2,500,000 from KD II representing an amount equal to 50% of the distributions KD II made to its members in September 2017. Kaupulehu Developments incurred fees of \$343,000 related to this payment which was included in "Accrued operating and other expenses" on the Company's Consolidated Balance Sheet at September 30, 2017, and was paid in October 2017.

The following table summarizes the Increment I and Increment II revenues received from KD I and KD II and the amount of fees directly related to such revenues (see Note 17 "Commitments and Contingencies - Other Matters"):

	Year ended September	
	30,	
	2017	2016
Sale of interest in leasehold land:		
Revenues - sale of interest in leasehold land	\$4,503,000	\$2,255,000
Fees - included in general and administrative expenses	(648,000)	(340,000)
Sale of interest in leasehold land, net of fees	\$3,855,000	\$1,915,000

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

Investment in leasehold land interest – Lot 4C

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

9. OIL AND NATURAL GAS PROPERTIES

2017 Acquisition

On September 27, 2017, Barnwell completed the acquisition of additional working interests in oil and natural gas properties located in the Spirit River area of Alberta, Canada, for cash consideration. The sales price per the agreement was adjusted to \$381,000 for customary purchase price adjustments to reflect the economic activity from the effective date of June 1, 2017 to the closing date. The Spirit River acquisition was accounted for as an asset acquisition.

2017 Dispositions

In June 2017, Barnwell entered into a Purchase and Sale Agreement with an independent third party and sold a portion of its oil and natural gas properties located in the Progress and Valhalla areas of Alberta, Canada. The sales price per the agreement was adjusted to \$1,076,000 for customary purchase price adjustments to reflect the economic activity from the effective date of April 1, 2017 to the closing date. From Barnwell's net proceeds, \$593,000 was withheld and remitted by the buyer to the Canada Revenue Agency for potential amounts due for Barnwell's Canadian income taxes related to the sale, which is included in "Income taxes receivable" on the Consolidated Balance Sheet at September 30, 2017.

During the year ended September 30, 2017, Barnwell also sold miscellaneous oil and natural gas properties for proceeds of \$208,000, of which \$72,000 was withheld and remitted by the buyers to the Canada Revenue Agency for potential amounts due for Barnwell's Canadian income taxes related to the sales which is included in "Income taxes receivable" on the Consolidated Balance Sheet at September 30, 2017.

No gain or loss was recognized related to these dispositions as these sales to multiple counterparties in unrelated transactions did not individually, or in aggregate, result in a significant alteration of the relationship between capitalized costs and proved reserves.

2016 Acquisition

On September 12, 2016, Barnwell completed the acquisition of additional working interests in oil and natural gas properties located in the Wood River area of Alberta, Canada, for cash consideration. The sales price per the agreement was adjusted to \$769,000 for customary purchase price adjustments to reflect the economic activity from the effective date of September 1, 2016 to the closing date.

The Wood River acquisition was accounted for under the acquisition method of accounting, and as such, Barnwell estimated the fair value of the acquired property as of the September 12, 2016 acquisition date. The following table summarizes the allocation of the consideration paid to acquire the properties to the assets acquired and liabilities assumed in the transaction as of the acquisition date. See Note 16 for further information regarding the fair value measurement inputs.

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

The results of operations for the Wood River acquisition has been included in the consolidated financial statements from the closing date.

2016 Impairment of oil and natural gas assets

Under the full cost method of accounting, the Company performs quarterly ceiling test calculations. Barnwell's net capitalized costs exceeded the ceiling limitations at June 30, 2016. As such, Barnwell reduced the carrying value of its oil and natural gas properties by \$1,154,000 during the year ended September 30, 2016. No such reduction was necessary during the current fiscal year.

2015 Disposition

Barnwell entered into a purchase and sale agreement with an independent third party and, in September 2015, sold its interests in its principal oil and natural gas properties located in the Dunvegan and Belloy areas of Alberta, Canada. The disposition was recorded in fiscal 2015 using preliminary purchase price adjustments. Barnwell and the purchaser updated and finalized the purchase price adjustments in accordance with the terms of the purchase and sale agreement during fiscal 2016 which resulted in additional proceeds of \$493,000 and the recognition of an additional gain in the amount of \$472,000 during the year ended September 30, 2016.

10. PROPERTY AND EQUIPMENT AND ASSET RETIREMENT OBLIGATION

Barnwell's property and equipment is detailed as follows:

	Estimated Useful Lives	Gross Property and Equipment	Accumulated Depletion, Depreciation, and Amortization	Net Property and Equipment
At September 30, 2017:				
Land		\$365,000	\$—	\$365,000
Oil and natural gas properties (full cost accounting)		68,708,000	(64,915,000)	3,793,000
Drilling rigs and equipment	3 – 10 years	6,577,000	(5,992,000)	585,000
Office	40 years	857,000	(295,000)	562,000
Other property and equipment	3 – 17 years	2,724,000	(2,660,000)	64,000
Total		\$79,231,000	\$(73,862,000)	\$5,369,000
	Estimated Useful Lives	Gross Property and Equipment	Accumulated Depletion, Depreciation, and Amortization	Net Property and Equipment
At September 30, 2016:				
Land		\$365,000	\$—	\$365,000
Oil and natural gas properties (full cost accounting)		66,265,000	(61,060,000)	5,205,000
Drilling rigs and equipment	3 – 10 years	6,379,000	(5,770,000)	609,000
Office	40 years	857,000	(274,000)	583,000
Other property and equipment	3 – 17 years	3,002,000	(2,862,000)	140,000
Total		\$76,868,000	\$(69,966,000)	\$6,902,000

See Note 9 for discussion of acquisitions and divestitures of oil and natural gas properties in fiscal 2017 and 2016 and the impairment of oil and natural gas properties recognized in fiscal 2016.

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

	Year ended September 30,	
	2017	2016
Asset retirement obligation as of beginning of year	\$7,194,000	\$6,936,000
Obligations incurred on new wells drilled or acquired	34,000	167,000
Liabilities associated with properties sold	(406,000)	—
Revision of estimated obligation	154,000	(68,000)
Accretion expense	433,000	464,000
Payments	(833,000)	(459,000)
Foreign currency translation adjustment	287,000	154,000
Asset retirement obligation as of end of year	6,863,000	7,194,000
Less current portion	(1,231,000)	(1,017,000)
Asset retirement obligation, long-term	\$5,632,000	\$6,177,000

Asset retirement obligations were reduced by \$406,000 in fiscal 2017 for those obligations that were assumed by purchasers of Barnwell's oil and natural gas properties. There were no such obligations assumed in fiscal 2016.

11. LONG-TERM DEBT

Canadian revolving demand facility

In June 2016, Barnwell entered into an agreement with Royal Bank of Canada for a revolving demand facility in the amount of \$500,000 Canadian dollars. Borrowings under this facility were \$0 at September 30, 2016. The obligations under the credit facility were secured by a \$500,000 Canadian dollar guaranteed investment certificate pledged to Royal Bank of Canada, which is classified as "Restricted cash" on the accompanying Consolidated Balance Sheet at U.S. \$381,000, at the September 30, 2016 exchange rate. In April 2017, the revolving demand facility was canceled and the guaranteed investment certificate matured and the funds were reclassified to cash.

Real estate loan

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

12. RETIREMENT PLANS

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

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

	Pension		SERP		Postretirement Medical	
	September 30, 2017	2016	2017	2016	2017	2016
Change in Projected Benefit Obligation:						
Benefit obligation at beginning of year	\$ 10,055,000	\$ 8,683,000	\$ 2,366,000	\$ 1,900,000	\$ 2,486,000	\$ 1,319,000
Service cost	237,000	261,000	34,000	68,000	—	—
Interest cost	336,000	364,000	56,000	86,000	87,000	56,000
Actuarial (gain) loss	(740,000)	953,000	(847,000)	318,000	(533,000)	1,111,000
Benefits paid	(255,000)	(206,000)	(4,000)	(6,000)	(11,000)	—
Benefit obligation at end of year	9,633,000	10,055,000	1,605,000	2,366,000	2,029,000	2,486,000
Change in Plan Assets:						
Fair value of plan assets at beginning of year	8,195,000	6,488,000	—	—	—	—
Actual return on plan assets	808,000	813,000	—	—	—	—
Employer contributions	350,000	1,100,000	4,000	6,000	11,000	—
Benefits paid	(255,000)	(206,000)	(4,000)	(6,000)	(11,000)	—
Fair value of plan assets at end of year	9,098,000	8,195,000	—	—	—	—
Funded status	\$(535,000)	\$(1,860,000)	\$(1,605,000)	\$(2,366,000)	\$(2,029,000)	\$(2,486,000)

	Pension		SERP		Postretirement Medical	
	September 30,					
	2017	2016	2017	2016	2017	2016
Amounts recognized in the Consolidated Balance Sheets:						
Current liabilities	\$—	\$—	\$(4,000)	\$(5,000)	\$(15,000)	\$—
Noncurrent liabilities	(535,000)	(1,860,000)	(1,601,000)	(2,361,000)	(2,014,000)	(2,486,000)
Net amount	\$(535,000)	\$(1,860,000)	\$(1,605,000)	\$(2,366,000)	\$(2,029,000)	\$(2,486,000)
Amounts recognized in accumulated other comprehensive loss (income) before income taxes:						
Net actuarial loss (gain)	\$2,374,000	\$3,521,000	\$(50,000)	\$797,000	\$280,000	\$1,001,000
Prior service cost (credit)	65,000	70,000	(65,000)	(70,000)	—	—
Accumulated other comprehensive loss (income)	\$2,439,000	\$3,591,000	\$(115,000)	\$727,000	\$280,000	\$1,001,000

Barnwell estimates that it will make approximately \$500,000 in contributions to the Pension Plan during fiscal 2018. In January 2017, the Postretirement Medical plan commenced payments for retiree medical insurance payments. The SERP and Postretirement Medical plans are unfunded and Barnwell funds benefits when payments are made. Expected payments under the Postretirement Medical plan and SERP for fiscal 2018 are not material. Fluctuations in actual market returns as well as changes in general interest rates will result in changes in the market value of plan assets and may result in increased or decreased retirement benefits costs and contributions in future periods.

The pension plan actuarial gains in fiscal 2017 were primarily due to an increase in the discount rate and actual investment returns that were greater than the assumed rate of return. The SERP actuarial gains in fiscal 2017 were primarily due to an increase in the discount rate and compensation increases that were lower than expected. The postretirement medical plan actuarial gains in fiscal 2017 were primarily due to an increase in the discount rate, an increase in the assumed retirement age, and decreases in the medical insurance premium assumptions. The pension plan actuarial losses in fiscal 2016 were primarily due to a decrease in the discount rate which was slightly offset by actual investment returns being greater than the assumed rate of return and an updated mortality projection scale. The SERP actuarial losses in fiscal 2016 were primarily due to a decrease in the discount rate which was slightly offset by an updated mortality projection scale. The postretirement medical plan actuarial losses in fiscal 2016 were primarily due to increases in the medical insurance premium assumptions and a decrease in the discount rate which were slightly offset by an updated mortality projection scale.

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

	Pension		SERP		Postretirement Medical	
	Year ended September 30,					
	2017	2016	2017	2016	2017	2016
Assumptions used to determine fiscal year-end benefit obligations:						
Discount rate	3.75%	3.50%	3.75%	3.50%	3.75%	3.50%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	N/A	N/A
Assumptions used to determine net benefit costs (years ended):						
Discount rate	3.50%	4.25%	3.50%	4.25%	3.50%	4.25%
Expected return on plan assets	6.50%	7.00%	N/A	N/A	N/A	N/A
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	N/A	N/A

The components of net periodic benefit cost are as follows:

	Pension		SERP		Postretirement Medical	
	Year ended September 30,					
	2017	2016	2017	2016	2017	2016
Net periodic benefit cost for the year:						
Service cost	\$237,000	\$261,000	\$34,000	\$68,000	\$—	\$—
Interest cost	336,000	364,000	56,000	86,000	87,000	56,000
Expected return on plan assets	(539,000)	(484,000)	—	—	—	—
Amortization of prior service cost (credit)	6,000	5,000	(6,000)	(5,000)	—	—
Amortization of net actuarial loss	138,000	141,000	—	27,000	188,000	—
Net periodic benefit cost	\$178,000	\$287,000	\$84,000	\$176,000	\$275,000	\$56,000

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

	Pension	SERP	Postretirement Medical
Prior service cost (credit)	\$6,000	\$(5,000)	\$ —
Net actuarial loss	86,000	—	11,000
	\$92,000	\$(5,000)	\$ 11,000

The accumulated benefit obligation differs from the projected benefit obligation in that it assumes future compensation levels will remain unchanged. The accumulated benefit obligation for the pension plan was \$8,530,000 and \$8,566,000 at September 30, 2017 and 2016, respectively. The accumulated benefit obligation for the SERP was \$1,510,000 and \$1,822,000 at September 30, 2017 and 2016, respectively.

The benefits expected to be paid under the retirement plans as of September 30, 2017 are as follows:

	Pension	SERP	Postretirement Medical
Expected Benefit Payments:			
Fiscal year ending September 30, 2018	\$301,000	\$4,000	\$ 15,000
Fiscal year ending September 30, 2019	\$284,000	\$4,000	\$ 15,000
Fiscal year ending September 30, 2020	\$386,000	\$58,000	\$ 15,000
Fiscal year ending September 30, 2021	\$404,000	\$59,000	\$ 42,000
Fiscal year ending September 30, 2022	\$390,000	\$58,000	\$ 44,000
Fiscal years ending September 30, 2023 through 2027	\$2,521,000	\$531,000	\$ 315,000

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

	Year ended	
	September	
	30,	
	2017	2016
Health care cost trend rates assumed for next year	7.50%	7.75%
Ultimate cost trend rate	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2028	2028

A 7.75% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2017. This assumption is based on the plans' recent experience. It is assumed that the rate will decrease gradually to 5% for fiscal 2028 and remain level thereafter. The assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement medical obligations. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point (Decrease)
Effect on total service and interest cost components	\$ 18,000	\$ (15,000)
Effect on accumulated postretirement benefit obligations	\$ 464,000	\$ (361,000)

Plan Assets

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

Barnwell's investments in fixed income securities include corporate bonds, preferred securities, and fixed income exchange-traded funds. The Company's investments in equity securities primarily include domestic and international large-cap companies, as well as, domestic and international equity securities exchange-traded funds. Plan assets include \$4,000 of Barnwell's stock at September 30, 2017.

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

	Target	September	
	Allocation	30,	
Asset Category		2017	2016
Cash and other	0% - 30%	1%	7%
Fixed income securities	20% - 60%	31%	23%
Equity securities	30% - 70%	68%	70%

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

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

The following tables set forth by level, within the fair value hierarchy, pension plan assets at their fair value:

	Carrying Amount as of September 30, 2017	Fair Value Measurements Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Cash	\$ 124,000	\$ 124,000	\$ —	\$ —
Certificates of deposit	496,000	496,000	—	—
Corporate bonds	210,000	210,000	—	—
Fixed income exchange-traded funds	2,036,000	2,036,000	—	—
Preferred securities	51,000	51,000	—	—
Equity securities exchange-traded funds	553,000	553,000	—	—
Equities	5,628,000	5,628,000	—	—
Total	\$ 9,098,000	\$ 9,098,000	\$ —	\$ —

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

13. INCOME TAXES

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

	Year ended September 30,	
	2017	2016
United States	\$1,522,000	\$(360,000)
Canada	(1,431,000)	(3,977,000)
	\$91,000	\$(4,337,000)

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

	Year ended September 30,	
	2017	2016
Current (benefit) provision:		
United States – Federal	\$—	\$—
United States – State		
Before operating loss carryforwards	118,000	—
Benefit of operating loss carryforwards	(107,000)	—
After operating loss carryforwards	11,000	—
Canadian	(823,000)	(651,000)
Total current	(812,000)	(651,000)
Deferred (benefit) provision:		
United States – Federal	—	—
United States – State	11,000	220,000
Canadian	(279,000)	(291,000)
Total deferred	(268,000)	(71,000)
	\$(1,080,000)	\$(722,000)

Consolidated taxes do not bear a customary relationship to pretax results due primarily to the fact that the Company is taxed separately in Canada based on Canadian source operations and in the U.S. based on consolidated operations, and essentially all deferred tax assets, net of relevant offsetting deferred tax liabilities and any amounts estimated to be realizable through tax carryback strategies, are not estimated to have a future benefit as tax credits or deductions. Income from our non-controlling interest in the Kukio Resort land development partnerships is treated as non-unitary for state of Hawaii unitary filing purposes, thus unitary Hawaii losses provide limited sheltering of such non-unitary income. In addition, the current Canadian income tax benefit for the year ended September 30, 2017 includes a \$369,000 benefit from the lapsing of the statute of limitations on a previously accrued uncertain tax position in addition to the benefit attributable to the current year Canadian jurisdiction pretax loss.

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

	Year ended September 30,	
	2017	2016
Tax provision (benefit) computed by applying statutory rate	\$32,000	\$(1,518,000)
(Decrease) increase in the valuation allowance	(1,034,000)	1,102,000
Uncertain tax positions - lapse of statute	(369,000)	(173,000)
Additional effect of the foreign tax provision on the total tax provision	254,000	(484,000)
U.S. state tax provision, before changes in uncertain tax positions and net of federal benefit	22,000	314,000
Other	15,000	37,000
	\$(1,080,000)	\$(722,000)

The changes in the valuation allowance shown in the table above exclude the impact of changes in uncertain tax positions and state taxes, the valuation allowance impacts of which are incorporated within the respective reconciliation line items elsewhere in the table.

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

	September 30,	
	2017	2016
Deferred income tax assets:		
Foreign tax credit carryover	\$3,062,000	\$4,028,000
Alternative minimum tax credit carryover	460,000	460,000
U.S. federal net operating loss carryover	9,773,000	8,728,000
Tax basis of investment in land and residential real estate in excess of book basis	877,000	836,000
Property and equipment accumulated book depreciation and depletion in excess of tax under U.S. tax law	2,180,000	3,611,000
Liabilities accrued for books but not for tax under U.S. tax law	3,910,000	4,843,000
Liabilities accrued for books but not for tax under Canadian tax law	2,103,000	2,303,000
Other	1,091,000	1,108,000
Total gross deferred income tax assets	23,456,000	25,917,000
Less valuation allowance	(21,158,000)	(23,410,000)
Net deferred income tax assets	2,298,000	2,507,000
Deferred income tax liabilities:		
Property and equipment accumulated tax depreciation and depletion in excess of book under Canadian tax law	(914,000)	(1,012,000)
Book basis of investment in land development partnerships in excess of tax basis	(1,289,000)	(1,668,000)
Other	(31,000)	(31,000)
Total deferred income tax liabilities	(2,234,000)	(2,711,000)
Net deferred income tax asset (liability)	\$64,000	\$(204,000)
Reported as:		
Deferred income tax assets	300,000	—
Deferred income tax liabilities	(236,000)	(204,000)
Net deferred income tax asset (liability)	\$64,000	\$(204,000)

The total valuation allowance decreased \$2,252,000 for the year ended September 30, 2017. The decrease was primarily due to decreases in various deferred tax assets for which a full valuation allowance had been provided, partially offset by an increase in the valuation allowance for deferred tax assets under U.S. federal tax law primarily related to an increase in U.S. federal net operating loss carryovers that are not more likely than not to have a future tax benefit. The decrease was also attributable to changes in the estimate of the future benefit of deferred tax assets under Canadian tax law from changes in the impacts of offsetting reversals of relevant deferred tax liabilities and changes in the amounts available for realization through tax strategies. Of the total net decrease in the valuation allowance for fiscal 2017, \$1,454,000 was recognized as an income tax benefit and \$798,000 was credited to accumulated other comprehensive loss.

Net deferred tax assets at September 30, 2017 of \$2,298,000 consists of the portion of deferred tax assets for which it is estimated that it is more likely than not that such future deductions will be realizable as the result of concurrent deferred tax liability reversals or tax loss carryback strategies under Canadian tax law.

At September 30, 2017, Barnwell had foreign tax credit carryovers, alternative minimum tax credit carryovers, and U.S. federal net operating loss carryovers totaling \$3,062,000, \$460,000 and \$28,743,000, respectively. All three items were fully offset by valuation allowances at September 30, 2017. The net operating loss carryovers expire in fiscal years 2032-2037, and the foreign tax credit carryovers expire in fiscal years 2019-2025.

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

Below are the changes in unrecognized tax benefits.

	Year ended	
	September 30,	
	2017	2016
Balance at beginning of year	\$377,000	\$582,000
Effect of tax positions taken in prior years	—	—
Accrued interest related to tax positions taken	11,000	20,000
Settlements	(10,000)	—
Lapse of statute	(369,000)	(173,000)
Translation adjustments	(9,000)	(52,000)
Balance at end of year	\$—	\$377,000

The Company has no remaining uncertain tax positions as of September 30, 2017. Included in the liability for unrecognized tax benefits at September 30, 2016, was accrued interest of \$35,000. Uncertain tax positions as of September 30, 2016 consisted primarily of Canadian federal and provincial issues that involved transfer pricing adjustments.

Included below is a summary of the tax years, by jurisdiction, that remain subject to examination by taxing authorities at September 30, 2017:

Jurisdiction	Fiscal Years Open
U.S. federal	2014 – 2016
Various U.S. states	2014 – 2016
Canada federal	2010 – 2016
Various Canadian provinces	2010 – 2016

14. SEGMENT AND GEOGRAPHIC INFORMATION

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

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

	Year ended September 30,	
	2017	2016
Revenues:		
Oil and natural gas	\$4,383,000	\$3,177,000
Land investment	4,503,000	2,255,000
Contract drilling	3,938,000	2,233,000
Residential real estate	—	5,700,000
Other	113,000	216,000
Total before interest income	12,937,000	13,581,000
Interest income	93,000	46,000
Total revenues	\$13,030,000	\$13,627,000
Depletion, depreciation, and amortization:		
Oil and natural gas	\$848,000	\$1,236,000
Contract drilling	270,000	251,000
Other	85,000	120,000
Total depletion, depreciation, and amortization	\$1,203,000	\$1,607,000
Impairment:		
Land investment	\$155,000	\$—
Oil and natural gas	—	1,154,000
Total impairment	\$155,000	\$1,154,000
Operating profit (loss) (before general and administrative expenses):		
Oil and natural gas	\$507,000	\$(2,355,000)
Land investment	4,348,000	2,255,000
Contract drilling	437,000	(116,000)
Residential real estate	—	190,000
Other	28,000	96,000
Gain on sales of assets	527,000	472,000
Total operating profit	5,847,000	542,000
Equity in income of affiliates:		
Land investment	2,276,000	2,624,000
General and administrative expenses	(6,976,000)	(6,701,000)
Interest expense	(6,000)	(97,000)
Interest income	93,000	46,000
Earnings (loss) before income taxes	\$1,234,000	\$(3,586,000)

Capital Expenditures:

	Year ended September 30,	
	2017	2016
Oil and natural gas	\$1,037,000	\$1,872,000
Contract drilling	229,000	66,000
Other	9,000	2,000
Total	\$1,275,000	\$1,940,000

Assets By Segment:

	September 30,	
	2017	2016
Oil and natural gas (1)	\$5,910,000	\$6,323,000
Land investment (2)	3,247,000	4,744,000
Contract drilling (2)	1,543,000	1,438,000
Other:		
Cash and cash equivalents	16,281,000	15,550,000
Certificates of deposit	4,413,000	—
Restricted cash	—	381,000
Corporate and other	1,626,000	3,132,000
Total	\$33,020,000	\$31,568,000

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

(2) Located in Hawaii.

Long-Lived Assets By Geographic Area:

	September 30,	
	2017	2016
United States	\$3,765,000	\$5,187,000
Canada	4,113,000	5,267,000
Total	\$7,878,000	\$10,454,000

Revenue By Geographic Area:

	Year ended September 30,	
	2017	2016
United States	\$8,444,000	\$10,226,000
Canada	4,493,000	3,355,000
Total (excluding interest income)	\$12,937,000	\$13,581,000

15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Year ended September 30,	
	2017	2016
Foreign currency translation:		
Beginning accumulated foreign currency translation	\$906,000	\$819,000
Change in cumulative translation adjustment before reclassifications	147,000	87,000
Income taxes	—	—
Net current period other comprehensive income	147,000	87,000
Ending accumulated foreign currency translation	1,053,000	906,000
Retirement plans:		
Beginning accumulated retirement plans benefit cost	(4,826,000)	(2,941,000)
Amortization of net actuarial loss and prior service cost	326,000	168,000
Net actuarial gain (loss) arising during the period	2,389,000	(2,053,000)
Income taxes	—	—
Net current period other comprehensive income (loss)	2,715,000	(1,885,000)
Ending accumulated retirement plans benefit cost	(2,111,000)	(4,826,000)
Accumulated other comprehensive loss, net of taxes	\$(1,058,000)	\$(3,920,000)

The amortization of accumulated other comprehensive loss components for the retirement plans are included in the computation of net periodic benefit cost which is a component of “General and administrative” expenses on the accompanying Consolidated Statements of Operations (see Note 12 for additional details).

16. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, certificates of deposit, restricted cash, accounts and other receivables, accounts payable and accrued current liabilities approximate their fair values due to the short-term nature of the instruments.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

At September 30, 2017, the carrying value of the investment held for sale was \$1,037,000, and a \$155,000 impairment of the value of the investment held for sale was recognized in the year ended September 30, 2017. In determining the estimated fair value of the investment held for sale at September 30, 2017, prices for comparable sales transactions and analysis of current market conditions were used by an independent real estate consulting and appraisal firm. This fair value measurement has been classified as a Level 2 valuation.

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

retirement costs, projections of future rates of production, expected recovery rates and risk adjusted discount rates. See Note 9 for additional information regarding oil and natural gas property acquisitions.

Barnwell estimates the fair value of asset retirement obligations based on the projected discounted future cash outflows required to settle abandonment and restoration liabilities. Such an estimate requires assumptions and judgments regarding the existence of liabilities, the amount and timing of cash outflows required to settle the liability, what constitutes adequate restoration, inflation factors, credit adjusted discount rates, and consideration of changes in legal, regulatory, environmental and political environments. Abandonment and restoration cost estimates are determined in conjunction with Barnwell's reserve engineers based on historical information regarding costs incurred to abandon and restore similar well sites, information regarding current market conditions and costs, and knowledge of subject well sites and properties. Asset retirement obligation fair value measurements in the current period were Level 3 fair value measurements. As further described in Note 10, the Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. Asset retirement obligations are not measured at fair value subsequent to initial recognition.

17. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Barnwell has several non-cancelable operating leases for office space, contract drilling base yard space and leasehold land, and records rent on a straight-line basis over the lease term. Rental expense was \$426,000 and \$404,000 for the years ended September 30, 2017 and 2016, respectively. At September 30, 2017, the difference between the recognized rent expense and the amounts paid totaled \$21,000 and was reported as a non-current liability within "Deferred rent" on the Consolidated Balance Sheet. There was no deferred rent liability at September 30, 2016. Barnwell is committed under these leases for minimum rental payments summarized by fiscal year as follows:

Fiscal year ending	
2018	\$298,000
2019	277,000
2020	277,000
2021	277,000
2022	219,000
Thereafter through 2047	6,482,000
Total	\$7,830,000

The lease payments for the Lot 4C leasehold land were subject to renegotiation as of January 1, 2006. Per the lease agreement, the lease payments will remain unchanged pending an appraisal, whereupon the lease rent could be adjusted to fair market value. Barnwell does not know the amount of the new lease payments which could be effective upon performance of the appraisal; they may remain unchanged or increase, and Barnwell currently expects the adjustment, if any, to not be material. The future rental payment disclosures above assume the minimum lease payments for leasehold land in effect at December 31, 2005 remain unchanged through December 2025, the end of the lease term.

Environmental Matters

In February 2016, a gas migration was detected at one of our previously abandoned non-operated wells in Alberta, Canada. Barnwell's working interest in the well is 50% and as non-operator we have no

control over the actual cost or timing of the remediation. In February 2016, we accrued approximately \$200,000 for estimated probable environmental remediation costs, which was the balance of the accrual in "Accrued operating and other expenses" at September 30, 2016. However, based on recent information from the operator of the well, the cost to remediate will be less than originally estimated and the remaining liability is approximately \$2,000 at September 30, 2017, which has not been discounted and was accrued in "Accrued operating and other expenses" on the Consolidated Balance Sheets.

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.

Legal and Regulatory Matters

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

Other Matters

Barnwell is obligated to pay Nearco Enterprises Ltd. 10.4%, net of non-controlling interests' share, of Kaupulehu Developments' gross receipts from real estate transactions. The fees represent compensation for promotion and marketing of Kaupulehu Developments' property and were determined based on the estimated fair value of such services. These fees are included in general and administrative expenses.

Barnwell is obligated to pay its external real estate legal counsel 1.2%, net of non-controlling interests' share, of all Increment II payments received by Kaupulehu Developments for services provided by its external real estate legal counsel in the negotiation and closing of the Increment II transaction. These fees are included in general and administrative expenses.

18. INFORMATION RELATING TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended September 30,	
	2017	2016
Increase (decrease) from changes in:		
Receivables	\$(166,000)	\$933,000
Other current assets	(289,000)	197,000
Accounts payable	(279,000)	(1,456,000)
Accrued compensation	(72,000)	(79,000)
Other current liabilities	192,000	(882,000)
Decrease from changes in current assets and liabilities	\$(614,000)	\$(1,287,000)
Supplemental disclosure of cash flow information:		
Cash paid (received) during the year for:		
Interest	\$6,000	\$94,000
Income taxes refunded, net	\$(90,000)	\$(219,000)
Supplemental disclosure of non-cash investing activities:		
Canadian income tax withholding on proceeds from the sale of oil and natural gas properties	\$665,000	\$—

Capital expenditure accruals related to oil and natural gas acquisition and development decreased \$101,000 and increased \$76,000 during the years ended September 30, 2017 and 2016, respectively. Additionally, during the years ended September 30, 2017 and 2016, capital expenditure accruals related to oil and natural gas asset retirement obligations increased \$188,000 and \$99,000, respectively.

19. RELATED PARTY TRANSACTIONS

Kaupulehu Developments is entitled to receive a percentage of the gross receipts from the sales of lots in Increment I from KD I and the sales of lots and/or residential units in Increment II from KD II. Kaupulehu Developments is also entitled to receive 50% of distributions, up to \$8,000,000, otherwise payable from KD II to its members, after the members of KD II have received distributions equal to the original basis of the capital they invested in the project, which occurred in fiscal 2017. KD I and KD II are part of the Kukio Resort land development partnerships in which Barnwell holds an indirect 19.6% non-controlling ownership interest accounted for under the equity method of investment. The percentage payments and percent of distribution payments are part of transactions which took place in 2004 and 2006 where Kaupulehu Developments sold its leasehold interests in Increment I and Increment II to KD I's and KD II's predecessors in interest, respectively, which was prior to Barnwell's affiliation with KD I and KD II which commenced on November 27, 2013, the acquisition date of our ownership interest in the Kukio Resort land development partnerships.

During the year ended September 30, 2017, Barnwell received \$2,003,000 in percentage of sales payments from KD I and KD II from the sale of two lots within Phase II of Increment I and the sale of one lot within Increment II. In fiscal 2017, the members of KD II received cumulative distributions equal to the

original basis of capital invested in the project after which Kaupulehu Developments received \$2,500,000 during the year ended September 30, 2017.

During the year ended September 30, 2016, Barnwell received \$2,255,000 in percentage of sales payments from KD I and KD II from the sale of three lots within Phase II of Increment I and one lot within Increment II.

20. SUBSEQUENT EVENTS

In October 2017, Barnwell entered into a Purchase and Sale Agreement with an independent third party and sold its oil and natural gas properties located in the Pouce Coupe area of Alberta, Canada. The sales price per the agreement was adjusted to \$73,000 for customary purchase price adjustments to reflect the economic activity from the effective date of May 1, 2017 to the closing date. From Barnwell's net proceeds, \$36,000 was withheld and remitted by the buyer to the Canada Revenue Agency for potential amounts due for Barnwell's Canadian income taxes.

In December 2017, Barnwell entered into a Purchase and Sale Agreement with an independent third party to sell its oil properties located in the Red Earth area of Alberta, Canada for \$1,560,000, which is expected to close in January 2018. The sales price per the agreement will be adjusted at closing for customary purchase price adjustments to reflect the economic activity from the effective date of October 1, 2017 to the closing date.

21. SUMMARY OF SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

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

22. SUPPLEMENTARY OIL AND NATURAL GAS INFORMATION (UNAUDITED)

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

(A) Oil and Natural Gas Reserves

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

	OIL & NGL (Bbls)	GAS (Mcf)	Total (Boe)
Proved reserves:			
Balance at September 30, 2015	469,000	3,124,000	1,008,000
Revisions of previous estimates	(23,000)	(1,320,000)	(251,000)
Extensions, discoveries and other additions	54,000	95,000	70,000
Acquisitions of reserves	34,000	18,000	37,000
Less production	(84,000)	(476,000)	(166,000)
Balance at September 30, 2016	450,000	1,441,000	698,000
Revisions of previous estimates	85,000	2,103,000	447,000
Acquisitions of reserves	31,000	39,000	38,000
Less sales of reserves	(67,000)	(200,000)	(101,000)
Less production	(86,000)	(378,000)	(151,000)
Balance at September 30, 2017	413,000	3,005,000	931,000

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

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

	September 30,	
	2017	2016
Proved properties	\$68,522,000	\$66,044,000
Unproved properties	186,000	221,000
Total capitalized costs	68,708,000	66,265,000
Accumulated depletion and depreciation	64,915,000	61,060,000
Net capitalized costs	\$3,793,000	\$5,205,000

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

	Year ended September 30,	
	2017	2016
Acquisition of properties:		
Unproved	\$70,000	\$161,000
Proved	381,000	608,000
Development costs	586,000	1,103,000
Total	\$1,037,000	\$1,872,000

Development costs incurred in the table above include additions and revisions to Barnwell's asset retirement obligation of \$188,000 and \$99,000 for the years ended September 30, 2017 and 2016, respectively.

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

	Year ended September 30,	
	2017	2016
Net revenues	\$4,383,000	\$3,177,000
Production costs	(3,028,000)	(3,142,000)
Depletion	(848,000)	(1,236,000)
Impairment of assets	—	(1,154,000)
Pre-tax results of operations (1)	507,000	(2,355,000)
Estimated income tax benefit (2)	282,000	297,000
Results of operations (1)	\$789,000	\$(2,058,000)

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

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

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

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

The estimated future cash flows at September 30, 2017 and 2016 were based on average sales prices in effect on the first day of the month for the preceding twelve month period in accordance with SEC Release No. 33-8995. The future production and development costs represent the estimated future expenditures that we will incur to develop and produce the proved reserves, assuming continuation of existing economic conditions. The future income tax expenses were computed by applying statutory income tax rates in existence at September 30, 2017 and 2016 to the future pre-tax net cash flows relating to proved reserves, net of the tax basis of the properties involved.

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

Standardized Measure of Discounted Future Net Cash Flows

	September 30,	
	2017	2016
Future cash inflows	\$24,786,000	\$17,259,000
Future production costs	(15,140,000)	(11,951,000)
Future development costs	(1,172,000)	(426,000)
Future income tax expenses	(2,401,000)	(1,016,000)
Future net cash flows	6,073,000	3,866,000
10% annual discount for timing of cash flows	(1,756,000)	(956,000)
Standardized measure of discounted future net cash flows	\$4,317,000	\$2,910,000

Changes in the Standardized Measure of Discounted Future Net Cash Flows

	Year ended September 30,	
	2017	2016
Beginning of year	\$2,910,000	\$4,035,000
Sales of oil and natural gas produced, net of production costs	(1,355,000)	(35,000)
Net changes in prices and production costs, net of royalties and wellhead taxes	3,033,000	(4,134,000)
Extensions and discoveries	—	1,285,000
Net change due to purchases and sales of minerals in place	(305,000)	470,000
Revisions of previous quantity estimates	511,000	(343,000)
Net change in income taxes	(1,247,000)	98,000
Accretion of discount	305,000	412,000
Other - changes in the timing of future production and other	400,000	1,018,000
Other - net change in Canadian dollar translation rate	65,000	104,000
Net change	1,407,000	(1,125,000)
End of year	\$4,317,000	\$2,910,000

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

As of September 30, 2017, an evaluation was carried out by Barnwell's Chief Executive Officer and Chief Financial Officer of the effectiveness of Barnwell's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Barnwell's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective as of September 30, 2017 to ensure that information required to be disclosed by Barnwell in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Act of 1934 and the rules thereunder.

Management's Annual Report on Internal Control Over Financial Reporting

Barnwell's management is responsible for establishing and maintaining adequate internal control over financial reporting for Barnwell, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of Barnwell's management, including our Chief Executive Officer and Chief Financial Officer, Barnwell conducted an evaluation of the effectiveness of its internal control over financial reporting using criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the report entitled Internal Control — Integrated Framework (2013) (the "COSO Framework"). Based on this evaluation under the COSO Framework, management concluded that its internal control over financial reporting was effective as of September 30, 2017.

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

Changes in Internal Control Over Financial Reporting

There was no change in Barnwell's internal control over financial reporting during the quarter ended September 30, 2017 that materially affected, or is reasonably likely to materially affect, Barnwell's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required is omitted pursuant to General Instruction G(3) of Form 10-K, since the Registrant will file its definitive proxy statement for the Annual Meeting of Stockholders no later than 120 days after the close of its fiscal year ended September 30, 2017, which proxy statement is incorporated herein by reference.

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

ITEM 11. EXECUTIVE COMPENSATION

The information required is omitted pursuant to General Instruction G(3) of Form 10-K, since the Registrant will file its definitive proxy statement for the Annual Meeting of Stockholders no later than 120 days after the close of its fiscal year ended September 30, 2017, which proxy statement is incorporated herein by reference.

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

The information required is omitted pursuant to General Instruction G(3) of Form 10-K, since the Registrant will file its definitive proxy statement for the Annual Meeting of Stockholders no later than 120 days after the close of its fiscal year ended September 30, 2017, which proxy statement is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information about Barnwell's common stock that may be issued upon exercise of options and rights under Barnwell's existing equity compensation plan as of September 30, 2017:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	593,750	\$7.72	62,500
Equity compensation plans not approved by security holders	—	—	—
Total	593,750	\$7.72	62,500

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

The information required is omitted pursuant to General Instruction G(3) of Form 10-K, since the Registrant will file its definitive proxy statement for the Annual Meeting of Stockholders no later than 120 days after the close of its fiscal year ended September 30, 2017, which proxy statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required is omitted pursuant to General Instruction G(3) of Form 10-K, since the Registrant will file its definitive proxy statement for the Annual Meeting of Stockholders no later than 120 days after the close of its fiscal year ended September 30, 2017, which proxy statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

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

Report of Independent Registered Public Accounting Firm – KPMG LLP

Consolidated Balance Sheets – September 30, 2017 and 2016

Consolidated Statements of Operations – for the years ended September 30, 2017 and 2016

Consolidated Statements of Comprehensive Income (Loss) – for the years ended September 30, 2017 and 2016

Consolidated Statements of Equity – for the years ended September 30, 2017 and 2016

Consolidated Statements of Cash Flows – for the years ended September 30, 2017 and 2016

Notes to Consolidated Financial Statements

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

(b) Exhibits

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

- 10.6 Agreement dated May 27, 2009 which became effective June 23, 2009 by and between Kaupulehu Developments and WB KD Acquisition, LLC and WB KD Acquisition II, LLC (8)
- 10.7 Limited Liability Limited Partnership Agreement of KD Kona 2013 LLLP dated November 27, 2013 (9)
- 10.8 Limited Liability Limited Partnership Agreement of KKM Makai, LLLP dated November 27, 2013 (10)

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- 10.9 Loan Agreement, dated as of March 28, 2011 between Kaupulehu 2007 LLLP and Barnwell Industries, Inc., as the borrowers, and American Savings Bank, F.S.B. as the lender, as amended (11)
- 10.10 Purchase and Sale Agreement, dated August 10, 2015, between Barnwell of Canada, Limited and Canadian Natural Resources Limited (12)
- 10.11 Purchase and Sale Agreement, executed on June 8, 2017, with an as of date of May 10, 2017, between Barnwell of Canada, Limited and Anegada Oil Corp. (13)
- 10.12 Purchase and Sale Agreement, dated December 14, 2017, between Barnwell of Canada, Limited and Mount Bastion Oil & Gas Corp. (14)
- 21 List of Subsidiaries
- 23.1 Consent of KPMG LLP
- 23.2 Consent of InSite Petroleum Consultants Ltd.
- 31.1 Certification of Chief Executive Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Reserve Report Summary prepared by InSite Petroleum Consultants Ltd.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

-
- (1) Incorporated by reference to Exhibit 3.1 to Registrant's Form 10-K for the year ended September 30, 2013.
 - (2) Incorporated by reference to Exhibit 3.2 to Registrant's Form 10-K for the year ended September 30, 2014.
 - (3) Incorporated by reference to the registration statement on Form S-1 originally filed by the Registrant January 29, 1957 and as amended February 15, 1957 and February 19, 1957.
 - (4) Incorporated by reference to Registrant's Form 10-K for the year ended September 30, 1989.
 - (5) Incorporated by reference to Registrant's Form 10-K for the year ended September 30, 1992.
 - (6) Incorporated by reference to Exhibit 2.1 to Registrant's Form 8-K filed on February 13, 2004.
 - (7) Incorporated by reference to Exhibit 2.2 to Registrant's Form 8-K filed on February 13, 2004.
 - (8) Incorporated by reference to Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended June 30, 2009.

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- (9) Incorporated by reference to Exhibit 10.7 to Registrant's Form 10-Q for the quarterly period ended December 31, 2013.
- (10) Incorporated by reference to Exhibit 10.8 to Registrant's Form 10-Q for the quarterly period ended December 31, 2013
- (11) Incorporated by reference to Exhibit 10.11 to Registrant's Form 10-Q for the quarterly period ended March 31, 2015.
- (12) Incorporated by reference to Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended June 30, 2015.
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- (14) Incorporated by reference to Exhibit 1.1 to Registrant's Form 8-K filed on December 19, 2017.

SIGNATURES

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

BARNWELL INDUSTRIES, INC.
(Registrant)

/s/ Russell M. Gifford
Russell M. Gifford
Chief Financial
Officer,
By: Executive Vice
President,
Treasurer and
Secretary
Date: December 20, 2017

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

/s/ Alexander C. Kinzler
Alexander C. Kinzler
President, Chief Executive Officer,
Chief Operating Officer,
General Counsel and Director
Date: December 20, 2017

/s/ Russell M. Gifford
Russell M. Gifford
Executive Vice President,
Chief Financial Officer, Treasurer,
Secretary and Director
Date: December 20, 2017

/s/ Martin Anderson
Martin Anderson, Director
Date: December 20, 2017

/s/ James S. Barnwell
James S. Barnwell, Chairman of the Board
Date: December 20, 2017

/s/ Murray C. Gardner
Murray C. Gardner, Director
Date: December 20, 2017

/s/ Morton H. Kinzler
Morton H. Kinzler, Director
Date: December 20, 2017

/s/ Kevin K. Takata
Kevin K. Takata, Director
Date: December 20, 2017

/s/ Robert J. Inghima, Jr.
Robert J. Inghima, Jr., Director
Date: December 20, 2017

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99.1 Reserve Report Summary prepared by InSite Petroleum Consultants Ltd.

101.INS XBRL Instance Document

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101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

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