



Barnwell Industries, Inc.

2014 Annual Report

FINANCIAL AND OPERATING HIGHLIGHTS

Years ended September 30,

	2014	2013	2012	2011	2010
<u>FINANCIAL:</u>					
Revenues	<u>\$ 31,445,000</u>	<u>\$ 24,608,000</u>	<u>\$ 34,062,000</u>	<u>\$ 38,460,000</u>	<u>\$ 41,872,000</u>
Net earnings (loss)	<u>\$ 672,000</u>	<u>\$ (8,563,000)</u>	<u>\$ (10,136,000)</u>	<u>\$ (109,000)</u>	<u>\$ 3,840,000</u>
Net earnings (loss) per share – diluted	<u>\$ 0.08</u>	<u>\$ (1.03)</u>	<u>\$ (1.22)</u>	<u>\$ (0.01)</u>	<u>\$ 0.46</u>

OPERATING:

Production -					
Oil and natural gas liquids – barrels	<u>184,000</u>	<u>229,000</u>	<u>259,000</u>	<u>250,000</u>	<u>243,000</u>
Natural gas – MCF*	<u>1,927,000</u>	<u>2,018,000</u>	<u>2,753,000</u>	<u>2,950,000</u>	<u>3,245,000</u>
Average price -					
Oil and natural gas liquids, per barrel	<u>\$ 67.52</u>	<u>\$ 67.35</u>	<u>\$ 70.71</u>	<u>\$ 71.67</u>	<u>\$ 57.05</u>
Natural gas, per MCF*	<u>\$ 3.84</u>	<u>\$ 2.68</u>	<u>\$ 2.03</u>	<u>\$ 3.42</u>	<u>\$ 3.82</u>

At September 30,

	2014	2013	2012	2011	2010
<u>FINANCIAL:</u>					
Total assets	<u>\$ 54,770,000</u>	<u>\$ 62,714,000</u>	<u>\$ 69,890,000</u>	<u>\$ 88,772,000</u>	<u>\$ 89,888,000</u>
Long-term debt, excluding current portion	<u>\$ 6,650,000</u>	<u>\$ 11,400,000</u>	<u>\$ 11,400,000</u>	<u>\$ 11,400,000</u>	<u>\$ 12,350,000</u>
<u>RESERVES:</u>					
Proved reserves:					
Oil and liquids – barrels	<u>724,000</u>	<u>923,000</u>	<u>1,078,000</u>	<u>1,184,000</u>	<u>1,272,000</u>
Natural gas – MCF*	<u>9,465,000</u>	<u>10,245,000</u>	<u>11,109,000</u>	<u>14,943,000</u>	<u>17,867,000</u>
Total natural gas and natural gas equivalent of oil and liquids** – MCF	<u>13,664,000</u>	<u>15,598,000</u>	<u>17,361,000</u>	<u>21,810,000</u>	<u>25,245,000</u>

* MCF means 1,000 cubic feet

** Oil and liquids are converted to natural gas equivalents on the basis of one barrel equals 5.8 MCF.

Reserves are calculated by an independent engineering firm based on SEC constant pricing.



BARNWELL INDUSTRIES, INC.

TO OUR STOCKHOLDERS:

Fiscal 2014 brought about significant changes and improved results at Barnwell. First, our new leadership at our Canadian oil and natural gas subsidiary took several bold steps, selling several oil and natural gas properties for proceeds of \$13,846,000 to improve operational focus and provide financial flexibility to pursue strategic acquisitions. These proceeds were sheltered from both U.S. and Canadian taxes and \$5,000,000 of these proceeds were utilized to repay our Canadian debt during the year. We believe these oil and natural gas properties were sold at very favorable prices and we should also note that the Company recognized no gain or loss on these sales, in accordance with the full cost method accounting rules.

Additionally, in the U.S. we began fiscal 2014 by making a significant \$5,140,000 investment, through a wholly-owned subsidiary, for a 19.6% interest in partnerships which own certain real estate and development rights in the Kukio, Maniniowali and Kaupulehu areas of Kukio Resort and the Kukio Resort real estate operations. This investment was principally funded by a bank loan of \$5,000,000, which was repaid in its entirety in September 2014. This debt repayment brought our total debt repaid in 2014 to \$10,541,000 and leaves us with only \$7,000,000 of debt related to our Canadian operations and \$4,100,000 of debt related to our U.S. operations at September 30, 2014, down significantly from fiscal year-end 2013.

We believe both the oil and natural gas property sales discussed above and the investment made in the Kukio Resort partnerships lay the groundwork for future growth opportunities and positive impacts on the Company's operations in the years to come.

We are pleased to report net earnings of \$672,000 (\$0.08 per share) for the year ended September 30, 2014, as compared to a net loss of \$8,563,000 (\$1.03 per share) for the year ended September 30, 2013, a significant turnaround for the Company and our first annual reported earnings in four years. Last year's loss included a reduction of the carrying value of oil and natural gas properties of \$4,506,000, before taxes, whereas there was no such reduction in the current fiscal year, and in fiscal 2014 Barnwell recognized a \$2,720,000 gain, net of non-controlling interests, on the Company's sale of its 1.2% minority interest in Hualalai Resort, as the Company had previously written off the carrying value of the investment.

In fiscal 2014, operating profit increased in all segments as compared to fiscal 2013 primarily resulting from higher prices received for oil and natural gas products, increased percentage of land sales payments received and an increase in contract drilling work.

The Company invested \$2,282,000 in oil and natural gas exploration and development during the year ended September 30, 2014, a \$3,380,000 (60%) decrease from 2013's \$5,662,000 as the Company continues to limit our drilling capital expenditures due to low oil and natural gas prices. The Company's proved developed oil and natural gas properties as of September 30, 2014, as determined by independent petroleum reserve engineers, are projected to generate undiscounted future after-tax net cash flows of approximately \$31,119,000. The projection was based on twelve-month average prices and assumes no increases in prices. Utilizing this same



constant price evaluation, the proved developed reserves per outstanding share of the Company are approximately 1.62 MCF equivalents or 0.28 barrel of oil equivalents (oil and natural gas liquids are converted at a ratio of one barrel to 5.8 MCF; natural gas is converted at a ratio of 5.8 MCF to one barrel of oil).

Additionally, the sale of eight lots at Kaupulehu occurred subsequent to our fiscal 2014 year-end and generated \$1,200,000 in percentage payments to the Company's 77.8%-owned partnership, which will be recognized in the quarter ended December 31, 2014, our fiscal 2015 first quarter.

These recent transactions, including the repayment of \$10,541,000 in debt during 2014, together with Barnwell's \$16,104,000 in cash and cash equivalents, \$11,997,000 in working capital and \$3,273,000 in available credit at September 30, 2014, position the Company solidly as we begin fiscal 2015.

We are pleased to report that Mr. James S. Barnwell III has been named by the Board of Directors as the new Chairman of the Company's Reserves Committee, effective April 1, 2015, and wish to thank Dr. Murray Gardner, the past Chairman of the Reserves Committee, for his seven years of service to the Company in that role.

We thank you, our stockholders, for your continued support in this difficult economic environment for oil and natural gas companies.

For the Board of Directors,

Morton H. Kinzler
Chairman of the Board and
Chief Executive Officer

Alexander C. Kinzler
President, Chief Operating Officer,
General Counsel and Director

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 2014

or

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

Commission File Number 1-5103

BARNWELL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

72-0496921

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

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

(Address of principal executive offices)

(Zip code)

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.50 per share	NYSE MKT

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

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

Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No

The aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of a share of common stock on March 31, 2014 (the last business day of the registrant's most recently completed second fiscal quarter) was \$12,451,000.

As of December 1, 2014 there were 8,277,160 shares of common stock outstanding.

Documents Incorporated by Reference

1. Proxy statement to be forwarded to stockholders on or about January 15, 2015 is incorporated by reference in Part III hereof.

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GLOSSARY OF TERMS

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

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

PART I

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

This Form 10-K, and the documents incorporated herein by reference, contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. A forward-looking statement is one which is based on current expectations of future events or conditions and does not relate to historical or current facts. These statements include various estimates, forecasts, projections of Barnwell Industries, Inc.’s (referred to herein together with its subsidiaries as “Barnwell,” “we,” “our,” “us” or the “Company”) future performance, statements of Barnwell’s plans and objectives and other similar statements. Forward-looking statements include phrases such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “predicts,” “estimates,” “assumes,” “projects,” “may,” “will,” “will be,” “should,” or similar expressions. Although Barnwell believes that its current expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such forward-looking statements will be achieved. Forward-looking statements involve risks, uncertainties and assumptions which could cause actual results to differ materially from those contained in such statements. Investors should not place undue reliance on these forward-looking statements, as they speak only as of the date of filing of this Form 10-K, and Barnwell expressly disclaims any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein.

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

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

ITEM 1. BUSINESS

Overview

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

- *Oil and Natural Gas Segment* - Barnwell engages in oil and natural gas exploration, development, production, acquisition and sales in Canada.
- *Land Investment Segment* - Barnwell invests in land interests in Hawaii.
- *Contract Drilling Segment* - Barnwell provides well drilling services and water pumping system installation and repairs in Hawaii.
- *Residential Real Estate Segment* - Barnwell develops homes for sale in Hawaii.

Oil and Natural Gas Segment

Overview

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

Operations

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

All exploratory and developmental operations are overseen by Barnwell's Calgary, Alberta staff and Barnwell's Chief Operating Officer located in Honolulu, along with senior management. In fiscal 2014, Barnwell participated in exploratory and developmental operations in Alberta and Saskatchewan, although Barnwell does not limit its consideration of exploratory and developmental operations to these areas.

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

Strategy

Our business strategy is to maximize the value of existing oil and gas properties through efficient production supplemented by opportunistic asset divestitures. Shareholder value is created

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

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

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

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

Key Property

Barnwell's principal oil and natural gas property is located in the Dunvegan area of Alberta, Canada and is called the Dunvegan Unit. Barnwell holds an 8.9% working interest in the Dunvegan Unit which, at September 30, 2014, had 220 producing natural gas wells. There were no wells drilled in the Dunvegan Unit in fiscal 2014.

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

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

Preparation of Reserve Estimates

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

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

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

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

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, 2014 on all properties in which Barnwell has an interest. All of Barnwell's proved reserves are developed; Barnwell has no proved undeveloped reserves as of September 30, 2014. All of our oil and natural gas reserves are located in Canada. These reserves are before deductions for indebtedness secured by the properties and are based on constant dollars. No estimates of total proved net oil or natural gas reserves have been filed with, or included in reports to, any federal authority or agency, other than the SEC, since October 1, 2013.

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

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

Standardized Measure of Discounted Future Net Cash Flows

The following table sets forth Barnwell's "Estimated Future Net Revenues" from total proved oil, natural gas and natural gas liquids reserves and the present value of Barnwell's "Estimated Future Net Revenues" (discounted at 10%) as of September 30, 2014. Estimated future net revenues for total proved reserves are net of estimated future expenditures of developing and producing the proved reserves, and assume the continuation of existing economic conditions. Net revenues have been calculated using the average first-day-of-the-month price during the 12-month period ending in the reporting period and current costs, after deducting all royalties, operating costs, future estimated capital expenditures (including abandonment costs), and income taxes.

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

* This amount does not purport to represent, nor should it be interpreted as, the fair value of Barnwell's natural gas and oil reserves. An estimate of fair value would also consider, among other items, the value of Barnwell's undeveloped land position, the recovery of reserves not presently classified as proved, anticipated future changes in oil and natural gas prices (these amounts were based on a natural gas price of \$3.90 per Mcf and an oil price of \$82.57 per Bbl) and costs, and a discount factor more representative of the time value of money and the risks inherent in reserve estimates.

Oil and Natural Gas Production

The following table summarizes (a) Barnwell's net production for the last three fiscal years, based on sales of natural gas, oil and natural gas liquids, from all wells in which Barnwell has or had an interest, and (b) the average sales prices and average production costs for such production during the same periods. Production amounts reported are net of royalties. All of Barnwell's net production in fiscal 2014, 2013 and 2012 was derived in Canada, primarily in Alberta. For a discussion regarding our

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

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

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

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

Capital Expenditures

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

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

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

Well Drilling Activities

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

The following table sets forth more detailed information with respect to the number of exploratory (“Exp.”) and development (“Dev.”) wells drilled for the fiscal years ended September 30, 2014, 2013 and 2012 in which Barnwell participated. All wells were drilled in Canada.

	Productive Oil Wells		Productive Gas Wells		Total Productive Wells		Dry Holes		Total Wells	
	Exp.	Dev.	Exp.	Dev.	Exp.	Dev.	Exp.	Dev.	Exp.	Dev.
2014										
Gross	-	2.0	-	2.0	-	4.0	-	-	-	4.0
Net	-	1.2	-	0.4	-	1.6	-	-	-	1.6
2013										
Gross	-	6.0	-	-	-	6.0	1.0	1.0	1.0	7.0
Net	-	0.8	-	-	-	0.8	1.0	0.5	1.0	1.3
2012										
Gross	1.0	5.0	-	-	1.0	5.0	-	2.0	1.0	7.0
Net	0.5	1.2	-	-	0.5	1.2	-	1.3	0.5	2.5

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

Productive Wells

As of September 30, 2014, Barnwell had interests in 460 gross (62.1 net) productive wells, of which 120 gross (19.2 net) were oil wells and 340 gross (42.9 net) were natural gas wells. Eight natural gas wells and two oil wells have dual or multiple completions. All wells were in Canada.

Developed Acreage and Undeveloped Acreage

The following table sets forth the gross and net acres of both developed and undeveloped oil and natural gas leases which we held as of September 30, 2014.

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

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

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

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

Marketing of Oil and Natural Gas

Barnwell sells all of its oil and natural gas liquids production under short-term contracts between itself and marketers of oil. The price of oil and natural gas liquids is freely negotiated between

buyers and sellers and is largely determined by the world price for oil, which is principally denominated in U.S. dollars.

Natural gas sold by Barnwell is generally sold under short-term contracts with prices indexed to market prices. The price of natural gas is freely negotiated between buyers and sellers and is principally determined for Barnwell by western Canadian/Midwestern U.S. prices for natural gas. In fiscal 2014 and 2013, Barnwell took virtually all of its oil, natural gas liquids and natural gas “in kind” where Barnwell markets the products instead of having the operator of a producing property market the products on Barnwell’s behalf.

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

In fiscal 2014, over 90% of Barnwell’s oil and natural gas revenues were from products sold at spot prices.

Governmental Regulation

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

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

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

Ninety-three percent of Barnwell’s gross revenues were derived from properties located within Alberta.

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

Under the Alberta Royalty Framework (“ARF”), royalty rates operate on a sliding rate formula sensitive to the price and production volumes of conventional oil and natural gas. The maximum royalty rate for conventional oil is 40% and the maximum royalty rate for natural gas is 36%. The price-sensitive maximum is reached for oil when oil is selling at or above \$120.00 Canadian dollars per barrel and for natural gas when natural gas is selling at or above \$17.50 Canadian dollars per Mcf.

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

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

The Alberta Energy Regulator (“AER”) revised its Licensee Liability Rating (“LLR”) program in fiscal 2013 to incorporate revised abandonment and reclamation cost estimates and adjusted asset values to reflect revised netbacks, gas shrinkage and oil equivalent volumes. The changes are effective in accordance with a three year implementation plan, as detailed by the AER, with the last of the three updates effective May 2015. Under the LLR program, the AER calculates a Liability Management Ratio (“LMR”) for a company based on the ratio of the company’s deemed assets over its deemed liabilities. Companies with a LMR less than 1.0 are required to deposit funds with the AER to cover future deemed liabilities. At September 30, 2014, the Company had sufficient deemed asset value that no security deposit was due. A requirement to provide security deposit funds to the AER in the future would result in the diversion of operating cash flows that could otherwise be used to fund oil and natural gas reserve replacement efforts, which could in turn have a material adverse effect on our business, financial condition and results of operations.

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

Competition

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

Land Investment Segment

Overview

Barnwell owns a 77.6% controlling interest in Kaupulehu Developments, a Hawaii general partnership that has the right to receive percentage of sales payments from KD I and KD II resulting from the sale of lots and/or residential units by KD I and KD II within approximately 870 acres of the

Kaupulehu Lot 4A area in two increments (“Increment I” and “Increment II”), located approximately six miles north of the Kona International Airport in the North Kona District of the island of Hawaii. Kaupulehu Developments also holds an interest in approximately 1,000 acres of vacant leasehold land zoned conservation located adjacent to Lot 4A under a lease that terminates in December 2025.

On November 27, 2013, Barnwell, through a wholly-owned subsidiary, entered into two limited liability limited partnerships, KD Kona 2013 LLLP and KKM Makai, LLLP, and indirectly acquired a 19.6% non-controlling ownership interest in each of KD Kukio Resorts, LLLP, KD 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 the aforementioned percentage of sales payments.

Kaupulehu 2007, a Hawaii limited liability limited partnership 80%-owned by Barnwell, owned two residential parcels in the Kaupulehu area at September 30, 2014. One residential parcel is being held for speculative purposes and is not expected to be sold within a year of the balance sheet date. In September 2014, Kaupulehu 2007 entered into a contract to sell the other residential parcel, which closed on October 13, 2014. See Residential Real Estate Segment for a discussion of Kaupulehu 2007’s luxury residence for sale.

Operations

In the 1980s, Kaupulehu Developments obtained the state and county zoning changes necessary to permit development of the Four Seasons Resort Hualalai at Historic Ka’upulehu and Hualalai Golf Club, which opened in 1996, a second golf course, and single-family and multi-family residential units. These projects were developed by an unaffiliated entity on leasehold land acquired from Kaupulehu Developments.

In the 1990s and 2000s, Kaupulehu Developments obtained the state and county zoning changes necessary to permit development of single-family and multi-family residential units, a golf course and a limited commercial area on approximately 870 leasehold acres, known as Lot 4A, zoned for resort/residential development, located adjacent to and north of the Four Seasons Resort Hualalai at Historic Ka’upulehu. In 2004 and 2006, Kaupulehu Developments transferred its leasehold interest in Kaupulehu Lot 4A Increment I and Increment II and received closing payments of \$11,550,000 and \$10,000,000, respectively. These transactions were prior to Barnwell’s affiliation with KD I and KD II which commenced on November 27, 2013, the acquisition date of our ownership interest in the Kukio Resort land development partnerships.

Increment I is an area planned for approximately 80 single-family lots and a beach club on the portion of the property bordering the Pacific Ocean. The lots within Increment I consist of two phases. Phase I consists of 38 completed single-family lots (23 ocean front lots and 15 ocean view lots) and Phase II is planned for 42 single-family lots. The developer released and began marketing a portion of the 42 single-family lots in Phase II in 2012. The purchasers of the 80 single-family lots will have the right to apply for membership in the Kuki`o Golf and Beach Club, which is located adjacent to and south of the Four Seasons Resort Hualalai at Historic Ka’upulehu. Increment II is the remaining portion of the approximately 870-acre property and is zoned for single-family and multi-family residential units and a golf course and clubhouse. Two residential lots approximately two to three acres

in size fronting the ocean are currently being developed within Increment II by KD II, and the remaining acreage within Increment II is not yet under development.

Kaupulehu Developments is entitled to receive payments from KD I based on the following percentages of the gross receipts from KD I's sales of single-family residential lots in Increment I: 9% of the gross proceeds from single-family lot sales up to aggregate gross proceeds of \$100,000,000; 10% of such aggregate gross proceeds greater than \$100,000,000 up to \$300,000,000; and 14% of such aggregate gross proceeds in excess of \$300,000,000. In fiscal 2014, three single-family lots in Increment I were sold bringing the total amount of gross proceeds from single-family lot sales through September 30, 2014 to \$161,000,000. As of September 30, 2014, 32 of the 38 single-family lots in Phase I of Increment I and three of the 42 single-family lots in Phase II of Increment I have been sold.

Kaupulehu Developments is entitled to receive payments from KD II based on a percentage of the sales price of KD II's sales of residential lots or units in Increment II ranging from 8% to 10% of the price of improved or unimproved lots or 2.60% to 3.25% of the price of units constructed on a lot, to be determined in the future depending upon a number of variables, including whether the lots are sold prior to improvement. Kaupulehu Developments is also entitled to receive up to \$8,000,000 in additional payments after the members of KD II have received distributions equal to the capital they invested in the project.

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

Competition

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

Contract Drilling Segment

Overview

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

Operations

Water Resources owns and operates one Spencer-Harris portable rotary drilling rig, an IDECO H-35 rotary drilling/workover rig, two GEFECO SS-40-T portable rotary drilling rigs, a National T-32 drilling rig and other ancillary drilling equipment. Water Resources also owns and operates one Walker Neer P-15-A and one Franks double drum service rig for deep set pump removal, installations and repairs. Additionally, Water Resources leases a three-quarter of an acre maintenance facility in

Honolulu, Hawaii, a one acre maintenance and storage facility with 2,800 square feet of interior space in Kawaihae, Hawaii, and a one acre equipment storage yard in Waimea, Hawaii, and maintains an inventory of drilling materials and pump supplies.

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

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

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

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

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

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

Competition

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

Competitive pressures are expected to remain high, thus there is no assurance that the quantity or values of available or awarded jobs which occurred in fiscal 2014 will continue.

Residential Real Estate Segment

Overview

Kaupulehu 2007 develops luxury residences for sale.

Operations

We began our homebuilding business in fiscal 2007 when Kaupulehu 2007 purchased two parcels in the Lot 4A Increment I area of Kaupulehu. Construction of the two homes commenced in fiscal 2007 and was completed in fiscal 2009. During fiscal 2012, one of the homes developed by Kaupulehu 2007 was sold. At September 30, 2014, Kaupulehu 2007 owned one luxury residence that is available for sale and did not have any homes under construction. This home is a 5-bedroom, 6.5-bath ranch-style home and is 6,275 square feet in size. Construction of additional homes will depend upon the timing and extent of changes in market conditions and the ability of the Company to obtain financing for such projects.

Competition

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

Financial Information About Industry Segments and Geographic Areas

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

Employees

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

Environmental Costs

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

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

Available Information

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

ITEM 1A. RISK FACTORS

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

Entity-Wide Risks

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

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

If Barnwell's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to the Company. Inability to access sufficient capital and credit, in combination with insufficient operating cash flows and land investment sales proceeds, will result in continuing decreases in oil and natural gas reserves that in turn will result in a decline in cash flows from oil and natural gas production to amounts that are insufficient to cover ongoing expenses and debt service requirements.

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

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

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

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

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

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

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

In addition, our Canadian revolving credit facility is subject to periodic redetermination and renewal. In April 2014, the aggregate principal amount of the revolving credit facility was decreased from \$20,000,000 Canadian dollars to \$11,800,000 Canadian dollars, partially due to the decrease in security resulting from sales of oil and natural gas properties in fiscal 2014. A further decrease in the facility could require us to repay indebtedness in excess of the borrowing base, or we may need to further secure the lenders with additional collateral. If we do not have sufficient funds for repayment,

available assets for collateral or the ability to arrange new financing, we may have to sell significant assets. Any such sale could have a material adverse effect on our business and financial results.

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

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

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

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

Our operations are subject to currency rate fluctuations.

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

Failure to retain key personnel could hurt our operations.

We require highly skilled and experienced personnel to operate our business. In addition to competing in highly competitive industries, we compete in a highly competitive labor market. Our business could be adversely affected by an inability to retain personnel or upward pressure on wages as a result of the highly competitive labor market.

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

As of September 30, 2014, four of our stockholders, including two of our executive officers, held approximately 44% of our outstanding common stock. The interests of one or more of these stockholders may not always coincide with the interests of other stockholders. These stockholders have significant influence over all matters submitted to our stockholders, including the election of our directors, and could accelerate, delay, deter or prevent a change of control of the Company. The significant stockholders who also are executive officers could significantly affect our business, policies and affairs.

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

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

Risks Related to Oil and Natural Gas Segment

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

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

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

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

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

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

The oil and natural gas industry is highly competitive.

We compete for capital, acquisitions of reserves, undeveloped lands, skilled personnel, access to drilling rigs, service rigs and other equipment, access to processing facilities, pipeline capacity and in many other respects with a substantial number of other organizations, many of which may have greater technical and financial resources than we do. Some of these organizations explore for, develop and produce oil and natural gas, carry on refining operations and market oil and other products on a

worldwide basis. As a result of these complementary activities, some of our competitors may have competitive resources that are greater and more diverse than ours. Furthermore, many of our competitors may have a competitive advantage when responding to factors that affect demand for oil and natural gas production, such as changing prices and production levels, the cost and availability of alternative fuels and the application of government regulations. If our competitors are able to capitalize on these competitive resources, it could adversely affect our revenues.

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

Oil and natural gas prices are volatile and have fluctuated widely during recent years in response to many factors that are beyond our control. These factors include, but are not limited to, changes in supply and demand, market uncertainty, weather, worldwide political instability, foreign supply of oil and natural gas, the level of consumer product demand, government regulations and taxes, the price and availability of alternative fuels and the overall economic environment. Any decline in oil or natural gas prices may have a material adverse effect on our operations, financial condition, operating cash flows, borrowing ability, reserves, and the amount of capital that we are able to allocate for the development of oil and natural gas reserves and future growth.

Energy prices are also subject to other political and regulatory actions outside our control, which may include changes in the policies of the Organization of Petroleum Exporting Countries or other developments involving or affecting oil-producing countries, or actions or reactions of the government of the United States in anticipation of or in response to such developments.

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

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

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

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

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

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

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

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

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

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

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

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

Actual reserves will vary from reserve estimates.

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

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

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

Delays in business operations could adversely affect our distributions.

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

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

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

The industry in which we operate exposes us to potential liabilities that may not be covered by insurance.

Our operations are subject to all of the risks associated with the operation and development of oil and natural gas properties, including the drilling of oil and natural gas wells, and the production and transportation of oil and natural gas. These risks include encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents,

cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, other environmental risks, fires and spills. A number of these risks could result in personal injury, loss of life, or environmental and other damage to our property or the property of others.

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

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

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

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

For wells and facilities in the Province of Alberta, the Alberta Energy Regulator (“AER”) tracks each licensee’s deemed asset value and estimated abandonment and reclamation liabilities, and imposes a security deposit on operators whose estimated liabilities exceed their deemed asset value. At September 30, 2014, the Company had sufficient deemed asset value that no security deposit was due. A requirement to provide security deposit funds to the AER in the future would result in the diversion of operating cash flows that could otherwise be used to fund oil and natural gas reserve replacement efforts, which could in turn have a material adverse effect on our business, financial condition and results of operations. Additionally, in July 2014, the AER introduced an Inactive Well Compliance Program which will result in the acceleration of expenditures to suspend and/or abandon long-term inactive wells.

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

might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy.

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

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

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

Barnwell's oil and natural gas operations are affected by political developments and laws and regulations, particularly in Canada and the United States, such as restrictions on production, restrictions on imports and exports, the maintenance of specified reserves, tax increases and retroactive tax claims, expropriation of property, cancellation of contract rights, environmental protection controls, environmental compliance requirements and laws pertaining to workers' health and safety. Further, the right to explore for and develop oil and natural gas on lands in Alberta, Saskatchewan and British Columbia is controlled by the governments of each of those provinces. Changes in royalties and other terms of provincial leases, permits and reservations may have a substantial effect on Barnwell's operations. We derive a significant portion of our revenues from our operations in Canada. In fiscal 2014, we derived 75% of our revenues from operations in Canada.

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

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

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

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

our income for tax purposes, and these disputes could have a material adverse effect on our financial performance.

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

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

Risks Related to Land Investment Segment

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

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

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

These investments involve risks which include:

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

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

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

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

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

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

We are entitled to receive future payments based on a percentage of the sales prices of residential homes and lots within approximately 870 acres in the Kaupulehu area. However, in order to collect such percentage of sales payments we are reliant upon the developer, KD I and KD II, in which we own a 19.6% ownership interest, to continue to develop and market the homes and lots. We do not have a controlling interest in the partnerships, and therefore are dependent on the general partner for development decisions. The receipt of future percentage of sales payments could be jeopardized if the developer fails to proceed with development and marketing of the property.

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

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

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

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

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

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

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

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

Risks Related to Contract Drilling Segment

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

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

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

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

Our contract drilling operations face significant competition.

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

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

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

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

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

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

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

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

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

Risks Related to Residential Real Estate Segment

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

Corporate Offices

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Disclosure is not applicable to Barnwell.

PART II

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

Market Information

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

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>	<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>
December 31, 2012	\$3.50	\$3.05	December 31, 2013	\$3.65	\$3.00
March 31, 2013	\$3.64	\$3.00	March 31, 2014	\$3.60	\$2.75
June 30, 2013	\$3.89	\$2.99	June 30, 2014	\$3.46	\$2.96
September 30, 2013	\$3.71	\$3.00	September 30, 2014	\$3.21	\$2.57

Holdings

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

Dividends

No dividends were declared or paid during fiscal years 2014 or 2013. The payment of future cash dividends will depend on, among other things, our financial condition, operating cash flows, the amount of cash inflows from land investment activities, and the level of our oil and natural gas capital expenditures.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Stock Performance Graph and Cumulative Total Return

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

The following discussion is intended to assist in the understanding of the Consolidated Balance Sheets of Barnwell Industries, Inc. and subsidiaries (collectively referred to herein as "Barnwell," "we," "our," "us" or the "Company") as of September 30, 2014 and 2013, and the related Consolidated Statements of Operations, Comprehensive Loss, Cash Flows, and Equity for the years ended September 30, 2014 and 2013. This discussion should be read in conjunction with the consolidated financial statements and related Notes to Consolidated Financial Statements included in this report.

Use of Estimates in the Preparation of Financial Statements

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

Critical Accounting Policies and Estimates

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

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

Policy Description

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

Judgments and Assumptions

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

of future expenditures. The process of estimating oil and natural gas reserves requires substantial judgment, resulting in imprecise determinations, particularly for new discoveries. Our reserve estimates are prepared at least annually by independent petroleum reserve engineers and quarterly by internal personnel. The passage of time provides more quantitative and qualitative information regarding estimates of reserves, and revisions are made to prior estimates to reflect updated information. In the last three fiscal years, annual revisions to our reserve volume estimates have averaged 9.8% of the previous year's estimate. However, there can be no assurance that more significant revisions will not be necessary in the future. If future significant revisions are necessary that reduce previously estimated reserve quantities, such revisions could result in a write-down of oil and natural gas properties. If reported reserve volumes were revised downward by 5% at the end of fiscal 2014, the ceiling limitation would have decreased approximately \$1,814,000 before income taxes, which would not have resulted in a reduction of the carrying value of oil and gas properties before income taxes.

In addition to the impact of the estimates of proved reserves on the calculation of the ceiling, estimated proved reserves are also a significant component of the quarterly calculation of depletion expense. The lower the estimated reserves, the higher the depletion rate per unit of production. Conversely, the higher the estimated reserves, the lower the depletion rate per unit of production. If reported reserve volumes were revised downward by 5% as of the beginning of fiscal 2014, depletion for fiscal 2014 would have increased by approximately \$277,000.

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

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

Policy Description

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

Judgments and Assumptions

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

Equity Method Investments

Policy Description

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

Judgments and Assumptions

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

Income Taxes

Policy Description

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

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

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

Judgments and Assumptions

We make estimates and judgments in determining our income tax expense for each reporting period. Significant changes to these estimates could result in an increase or decrease in our tax provision in future periods. We are also required to make judgments about the recoverability of deferred tax assets and when it is more likely than not that all or a portion of deferred tax assets will not be realized, a valuation allowance is provided. We consider available positive and negative

evidence when assessing the realizability of deferred tax assets including historic and estimated future taxable earnings and available tax planning strategies. Accordingly, changes in our business performance, unforeseen events, and changes in estimates of future taxable income could require a further increase in the valuation allowance or a reversal in the valuation allowance in future periods. This could result in a charge to, or an increase in, income in the period such determination is made, and the impact of these changes could be material.

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

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

Asset Retirement Obligation

Policy Description

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

Judgments and Assumptions

The asset retirement obligation is recorded at fair value in the period in which it is incurred along with a corresponding increase in the carrying amount of the related asset. Barnwell has estimated fair value by discounting the estimated future cash outflows required to settle abandonment and restoration liabilities. The present value calculation includes numerous estimates, assumptions and judgments regarding the existence of liabilities, the amount and timing of cash outflows required to settle the liability, what constitutes adequate restoration, inflation factors, credit adjusted discount rates, and consideration of changes in legal, regulatory, environmental and political environments. Abandonment and restoration cost estimates are determined in conjunction with Barnwell's reserve engineers based on historical information regarding costs incurred to abandon and restore similar well

sites, information regarding current market conditions and costs, and knowledge of subject well sites and properties. The process of estimating the asset retirement obligation requires substantial judgment and use of estimates, resulting in imprecise determinations. Actual asset retirement obligations through the end of fiscal 2014 have not materially differed from our estimates. However, because of the inherent imprecision of estimates as described above, there can be no assurance that material differences will not occur in the future. A 20% increase in accretion and depletion of the asset retirement obligation would have increased Barnwell's fiscal 2014 expenses before taxes by approximately \$325,000.

Overview

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

Oil and Natural Gas Segment

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

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

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

Land Investment Segment

The land investment segment is comprised of the following components:

1) Through Barnwell's 77.6% controlling interest in Kaupulehu Developments, a Hawaii general partnership, 75% controlling interest in KD Kona 2013 LLLP, a Hawaii limited liability limited

partnership, and 34.45% non-controlling interest in KKM Makai, LLLP, a Hawaii limited liability limited partnership, the Company's land investment interests include the following:

- The right to receive payments from KD I and KD II, resulting from the sale of lots and/or residential units within approximately 870 acres of the Kaupulehu Lot 4A area, located approximately six miles north of the Kona International Airport in the North Kona District of the island of Hawaii, adjacent to Hualalai Resort at Historic Ka`upulehu, between the Queen Kaahumanu Highway and the Pacific Ocean, by KD I and KD II in two increments ("Increment I" and "Increment II"). Increment I is an area zoned for approximately 80 single-family lots and a beach club on the portion of the property bordering the Pacific Ocean, and is partially developed. The purchasers of the 80 single-family lots will have the right to apply for membership in the Kuki`o Golf and Beach Club, which is located adjacent to and south of the Four Seasons Resort Hualalai at Historic Ka`upulehu. Increment II is the remaining portion of the approximately 870-acre property and is zoned for single-family and multi-family residential units and a golf course and clubhouse. Two residential lots approximately two to three acres in size fronting the ocean are currently being developed within Increment II by KD II, and the remaining acreage within Increment II is not yet under development.
- An indirect 19.6% non-controlling ownership interest in each of KD Kukio Resorts, LLLP, KD Maniniowali, LLLP and KD Kaupulehu, LLLP. These entities own certain real estate and development rights interests in the Kukio, Maniniowali and Kaupulehu portions of Kukio Resort, a private residential community on the Kona coast of the island of Hawaii, as well as Kukio Resort's real estate sales office operations. KD Kaupulehu, LLLP, which wholly owns KD I and KD II, is the developer of Kaupulehu Lot 4A Increments I and II, the area in which Barnwell has interests in percentage of sales payments.
- Approximately 1,000 acres of vacant leasehold land zoned conservation in the Kaupulehu Lot 4C area located adjacent to the 870-acre Lot 4A described above.

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

Contract Drilling Segment

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

Residential Real Estate Segment

Barnwell, through its 80%-owned real estate joint venture, Kaupulehu 2007, constructs and sells luxury single-family homes. Kaupulehu 2007, in addition to the two parcels described above,

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

Investment in Joint Ventures

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

Business Environment

Our operations are located in Canada and in the state of Hawaii. Accordingly, our business performance is directly affected by macroeconomic conditions in those areas, as well as general economic conditions of the U.S. domestic and world economies. Current global economic conditions differentiate recent times from years past and continue to impact all of the Company's segments in both Hawaii and Canada.

Oil and Natural Gas Segment

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

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

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

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

Land Investment and Residential Real Estate Segments

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

Demand for residential homes and lots on the Kona/Kohala coast has improved with increased developer and resale volumes as compared to recent years. However, we do not control or determine when or if the remainder of Increment I or Increment II will be developed. If real estate activity in the

Kaupulehu area does not continue to improve or does not improve sufficiently, our operating results, financial condition, liquidity and cash flows could be adversely affected.

Contract Drilling Segment

Demand for water well drilling and/or pump installation and repair services is volatile and dependent upon land development activities within the state of Hawaii. The most recent State of Hawaii Department of Business, Economic Development and Tourism forecast suggests growth in the construction industry with increases in private development more than offsetting decreases in government contracts. Management currently estimates that well drilling activity for fiscal 2015 will decrease slightly as compared to fiscal 2014 based upon the value of contracts in backlog.

Results of Operations

Summary

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

- There was a reduction of the carrying value of oil and natural gas properties of \$4,506,000, before taxes, in the prior fiscal year and there was no such reduction in the current fiscal year;
- A \$3,399,000 gain on sale of investment, before non-controlling interests' share of such gain and before taxes, in the current year period from the sale of the 1.5% interests in Hualalai Resort and Kona Village Resort;
- A \$2,066,000 increase in oil and natural gas segment operating profit, before the prior year reduction in carrying value of assets and taxes, primarily resulting from higher prices received for all products;
- A \$1,247,000 increase in contract drilling operating results, before taxes, primarily resulting from increased water well drilling activity;
- A \$354,000 increase in land investment segment operating profit, before income taxes and non-controlling interests' share of such profits, as there were increased percentage of sales receipts in the current year; and
- A \$271,000 foreign currency transaction gain in the current year due to the repayment of the U.S. dollar denominated credit facility using Canadian dollars.

General

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

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

decreased 8% at September 30, 2014, as compared to September 30, 2013. Accordingly, the assets, liabilities, stockholders' equity, and revenues and expenses of Barnwell's subsidiaries operating in Canada have been adjusted to reflect the change in the exchange rates. Barnwell's Canadian dollar assets are greater than its Canadian dollar liabilities; therefore, increases or decreases in the value of the Canadian dollar to the U.S. dollar generate other comprehensive income or loss, respectively. Other comprehensive income and losses are not included in net loss. Other comprehensive loss due to foreign currency translation adjustments, net of taxes, for fiscal 2014 was \$2,009,000, a \$690,000 change from other comprehensive loss due to foreign currency translation adjustments, net of taxes, of \$1,319,000 in fiscal 2013. There were no taxes on other comprehensive loss due to foreign currency translation adjustments in fiscal 2014 and 2013 due to a full valuation allowance on the related deferred tax assets.

Oil and natural gas revenues

Selected Operating Statistics

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

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

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

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

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

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

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

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

Oil and natural gas operating expenses

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

Sale of interest in leasehold land

Kaupulehu Developments is entitled to receive a percentage of the gross receipts from the sales of single-family residential lots in Increment I from KD I, a land development partnership in which Barnwell holds an indirect 19.6% non-controlling ownership interest accounted for under the equity method of investment. The percentage payments are part of a 2004 transaction where Kaupulehu Developments sold its leasehold interest in Increment I to KD I, which was prior to Barnwell's affiliation with KD I on November 27, 2013, the acquisition date of our ownership interest in the Kukio Resort land development partnerships.

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

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

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

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

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

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

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

Contract drilling

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

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

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

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

Gain on sale of investments

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

Gas processing and other

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

General and administrative expenses

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

Depletion, depreciation, and amortization

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

Reduction of carrying value of assets

Under the full cost method of accounting, the Company performs quarterly oil and natural gas ceiling test calculations. Barnwell's net capitalized costs exceeded the ceiling limitations at December 31, 2012 and March 31, 2013. As such, Barnwell reduced the carrying value of its oil and natural gas properties by \$4,506,000 during the year ended September 30, 2013. No such reduction was necessary during the year ended September 30, 2014.

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

Interest expense

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

Equity in loss of affiliates

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

19.6% ownership interest in each KD Kukio Resorts, LLC, KD Maniniowali, LLC and KD Kaupulehu, LLC for \$5,140,000. Barnwell's investment in these entities is accounted for using the equity method of accounting. Barnwell was allocated partnership losses of \$482,000 during fiscal 2014.

Income taxes

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

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

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

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

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

Net earnings (loss) attributable to non-controlling interests

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

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

Inflation

The effect of inflation on Barnwell has generally been to increase its cost of operations, interest cost (as a substantial portion of Barnwell's debt is at variable short-term rates of interest which tend to increase as inflation increases), general and administrative costs and direct costs associated with oil and natural gas production and contract drilling operations. Oil and natural gas prices realized by Barnwell are essentially determined by world prices for oil and western Canadian/Midwestern U.S. prices for natural gas.

Impact of Recently Issued Accounting Standards on Future Filings

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

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

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

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

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

annual periods beginning after December 15, 2014. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The amendments in this update also require disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts. The amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, using one of two retrospective application methods. Early application is not permitted. Barnwell is currently evaluating the effect that the adoption of this update will have on the consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which requires an entity to evaluate at each reporting period whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year from the date the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for interim and annual reporting periods beginning after December 15, 2016. Early application is permitted. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

Liquidity and Capital Resources

Barnwell's primary sources of liquidity are cash on hand, cash flows from operations, land investment segment proceeds and available credit. At September 30, 2014, Barnwell had \$16,104,000 in cash and cash equivalents, \$11,997,000 in working capital and \$3,273,000 of available credit under its credit facility with its Canadian bank.

Cash Flows

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

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

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

Credit Arrangements

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

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

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

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

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

Oil and Natural Gas Capital Expenditures

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

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

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

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

Barnwell estimates that investments in oil and natural gas properties for fiscal 2015 will range from \$5,000,000 to \$12,000,000. This estimated amount may increase or decrease as dictated by cash flows and management’s assessment of the oil and natural gas environment and prospects.

Oil and Natural Gas Properties

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

In April 2014, Barnwell entered into a Purchase and Sale Agreement with an independent third party and sold its interests in oil and gas properties located in the Chauvin, Cessford and Rat Creek areas of Alberta, Canada. The sales price per the agreement was adjusted at closing for preliminary purchase price adjustments to approximately \$4,581,000 in order to, among other things, reflect an economic effective date of March 1, 2014. The final determination of the customary adjustments to the purchase price has not yet been made however it is not expected to result in material adjustments. Net oil and natural gas production from these properties was approximately 24,000 Boe, or approximately 4% of total net oil and natural gas production, for the year ended September 30, 2013. As of September 30, 2013, estimated net proved oil and natural gas reserve volumes associated with these properties was 132,000 Boe, or approximately 5% of the total reserve volumes at that date.

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

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

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

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

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

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

Asset Retirement Obligation

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

Other Considerations

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

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

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

Contractual Obligations

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

Contingencies

Environmental

As of September 30, 2014 and 2013, environmental remediation costs of \$501,000 and \$783,000, respectively, which have not been discounted, were accrued for probable environmental remediation costs for soil contamination from infrastructure issues at the Dunvegan and Wood River properties. Because of the inherent uncertainties associated with environmental assessment and remediation activities, future expenses to remediate the currently identified sites, and sites identified in the future, if any, could be incurred.

Guarantee

See Note 6 in the "Notes to Consolidated Financial Statements" in Item 8 for a discussion of Barnwell's guarantee of the Kukio Resort land development partnership's performance bonds.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors
Barnwell Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Barnwell Industries, Inc. and subsidiaries as of September 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, cash flows, and equity for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barnwell Industries, Inc. and subsidiaries as of September 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Honolulu, Hawaii
December 18, 2014

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30,	
	2014	2013
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 16,104,000	\$ 7,828,000
Accounts and other receivables, net of allowance for doubtful accounts	2,910,000	3,287,000
Prepaid expenses	221,000	230,000
Investment held for sale	1,139,000	-
Real estate held for sale	5,448,000	5,448,000
Other current assets	<u>698,000</u>	<u>2,234,000</u>
Total current assets	26,520,000	19,027,000
Investments	5,900,000	2,381,000
Property and equipment, net	<u>22,350,000</u>	<u>41,306,000</u>
Total assets	<u>\$ 54,770,000</u>	<u>\$ 62,714,000</u>
<u>LIABILITIES AND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 3,453,000	\$ 4,415,000
Accrued capital expenditures	519,000	1,846,000
Accrued incentive and other compensation	1,085,000	1,652,000
Accrued operating and other expenses	2,464,000	2,670,000
Payable to joint interest owners	915,000	187,000
Current portion of long-term debt	4,449,000	5,240,000
Current asset retirement obligation	978,000	-
Other current liabilities	<u>660,000</u>	<u>437,000</u>
Total current liabilities	14,523,000	16,447,000
Long-term debt	6,650,000	11,400,000
Liability for retirement benefits	4,266,000	3,137,000
Asset retirement obligation	8,185,000	7,520,000
Deferred income taxes	<u>1,201,000</u>	<u>1,890,000</u>
Total liabilities	<u>34,825,000</u>	<u>40,394,000</u>
Commitments and contingencies (Note 15)		
Equity:		
Common stock, par value \$0.50 per share; authorized, 20,000,000 shares:		
8,445,060 issued at September 30, 2014 and 2013	4,223,000	4,223,000
Additional paid-in capital	1,315,000	1,289,000
Retained earnings	16,204,000	15,532,000
Accumulated other comprehensive (loss) income, net	(258,000)	2,991,000
Treasury stock, at cost:		
167,900 shares at September 30, 2014 and 2013	<u>(2,286,000)</u>	<u>(2,286,000)</u>
Total stockholders' equity	19,198,000	21,749,000
Non-controlling interests	<u>747,000</u>	<u>571,000</u>
Total equity	<u>19,945,000</u>	<u>22,320,000</u>
Total liabilities and equity	<u>\$ 54,770,000</u>	<u>\$ 62,714,000</u>

See Notes to Consolidated Financial Statements

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

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

See Notes to Consolidated Financial Statements

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

	Year ended September 30,	
	2014	2013
Net earnings (loss)	<u>\$ 1,338,000</u>	<u>\$ (8,672,000)</u>
Other comprehensive (loss) income:		
Foreign currency translation adjustments, net of taxes of \$0	(2,009,000)	(1,319,000)
Retirement plans:		
Amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0	16,000	259,000
Net actuarial (losses) gains arising during the period, net of taxes of \$0	<u>(1,256,000)</u>	<u>1,729,000</u>
Total other comprehensive (loss) income	<u>(3,249,000)</u>	<u>669,000</u>
Total comprehensive loss	(1,911,000)	(8,003,000)
Less: Comprehensive income (loss) attributable to non-controlling interests	<u>666,000</u>	<u>(109,000)</u>
Comprehensive loss attributable to Barnwell Industries, Inc.	<u>\$ (2,577,000)</u>	<u>\$ (7,894,000)</u>

See Notes to Consolidated Financial Statements

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

	Year ended September 30,	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Net income (loss)	\$ 1,338,000	\$ (8,672,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation, and amortization	6,391,000	8,542,000
Equity in loss of affiliates	482,000	-
Gain on sale of investments	(3,399,000)	-
Reduction of carrying value of assets	-	4,506,000
Foreign exchange gain	(271,000)	-
Retirement benefits expense	245,000	617,000
Accretion of asset retirement obligation	624,000	499,000
Deferred income tax benefit	(707,000)	(1,460,000)
Asset retirement obligation payments	(111,000)	(222,000)
Share-based compensation benefit	(380,000)	(73,000)
Retirement plan contributions	(356,000)	(606,000)
Sale of interest in leasehold land, net	(636,000)	(282,000)
Real estate held for sale	-	(139,000)
Increase from changes in current assets and liabilities	<u>2,349,000</u>	<u>481,000</u>
Net cash provided by operating activities	<u>5,569,000</u>	<u>3,191,000</u>
Cash flows from investing activities:		
Proceeds from sale of oil and natural gas assets	13,846,000	-
Proceeds from sale of investments	3,297,000	-
Proceeds from sale of interest in leasehold land, net of fees paid	636,000	282,000
Proceeds from gas over bitumen royalty adjustments	15,000	62,000
Payment to acquire interest in affiliates	(5,140,000)	-
Capital expenditures	<u>(3,576,000)</u>	<u>(4,122,000)</u>
Net cash provided by (used in) investing activities	<u>9,078,000</u>	<u>(3,778,000)</u>
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	5,000,000	503,000
Repayments of long-term debt	(10,541,000)	(1,020,000)
Contributions from non-controlling interests	215,000	198,000
Distributions to non-controlling interests	<u>(705,000)</u>	<u>-</u>
Net cash used in financing activities	<u>(6,031,000)</u>	<u>(319,000)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(340,000)</u>	<u>(111,000)</u>
Net increase (decrease) in cash and cash equivalents	8,276,000	(1,017,000)
Cash and cash equivalents at beginning of year	<u>7,828,000</u>	<u>8,845,000</u>
Cash and cash equivalents at end of year	<u>\$ 16,104,000</u>	<u>\$ 7,828,000</u>

See Notes to Consolidated Financial Statements

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
Years ended September 30, 2013 and 2014

	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, 2012	8,277,160	\$ 4,223,000	\$ 1,289,000	\$ 24,095,000	\$ 2,322,000	\$ (2,286,000)	\$ 482,000	\$ 30,125,000
Contributions from non-controlling interests							198,000	198,000
Net loss				(8,563,000)			(109,000)	(8,672,000)
Foreign currency translation adjustments, net of taxes of \$0					(1,319,000)			(1,319,000)
Retirement plans:								
Amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0					259,000			259,000
Net actuarial gains arising during the period, net of taxes of \$0					1,729,000			1,729,000
Balance at September 30, 2013	<u>8,277,160</u>	<u>4,223,000</u>	<u>1,289,000</u>	<u>15,532,000</u>	<u>2,991,000</u>	<u>(2,286,000)</u>	<u>571,000</u>	<u>22,320,000</u>
Contributions from non-controlling interests							215,000	215,000
Distributions to non-controlling interests							(705,000)	(705,000)
Net earnings				672,000			666,000	1,338,000
Share-based compensation			26,000					26,000
Foreign currency translation adjustments, net of taxes of \$0					(2,009,000)			(2,009,000)
Retirement plans:								
Amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0					16,000			16,000
Net actuarial losses arising during the period, net of taxes of \$0					(1,256,000)			(1,256,000)
Balance at September 30, 2014	<u>8,277,160</u>	<u>\$ 4,223,000</u>	<u>\$ 1,315,000</u>	<u>\$ 16,204,000</u>	<u>\$ (258,000)</u>	<u>\$ (2,286,000)</u>	<u>\$ 747,000</u>	<u>\$ 19,945,000</u>

See Notes to Consolidated Financial Statements

BARNWELL INDUSTRIES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

Principles of Consolidation

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

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

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

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

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.

Real Estate Held for Sale

The costs of acquiring land and costs related to development and construction, including interest, property taxes and general and administrative expenses related to the development of land and home construction, are capitalized. Costs that relate to a specific lot or home are assigned to that lot or home while common costs related to multiple lots or homes will be allocated to each in proportion to their anticipated sales value.

Real estate held for sale is reported at the lower of the asset carrying value or fair value less costs to sell. The recorded balances are evaluated for impairment whenever events or changes in circumstances indicate that the balance may not be fully recoverable. This evaluation requires management to make assumptions and apply considerable judgments to, among others, estimates of the timing and amount of future cash flows, uncertainty about future events, including changes in economic conditions, changes in operating performance, and ongoing cost of maintenance and improvements of the assets. Changes in these and other assumptions may require impairment charges that may materially impact the Company's future operating results. If economic conditions worsen in the future or if difficult market conditions extend beyond the Company's expectations resulting in a decrease in the fair value of the aforementioned assets below carrying value, the Company will be required to record an impairment loss.

Homebuilding revenue and related profit or loss are generally recognized at the time of the closing of a sale, when title to and possession of the property are transferred to the buyer.

Investments in Real Estate and Investment Held for Sale

Barnwell's investment in residential parcels is reported at the lower of the asset carrying value or fair value less costs to sell. The recorded balances are evaluated for impairment whenever events or changes in circumstances indicate that the balance may not be fully recoverable. This evaluation requires management to make assumptions and apply considerable judgments to, among others, estimates of the timing and amount of future cash flows, uncertainty about future events, including changes in economic conditions, changes in operating performance, changes in the use of the assets, 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. If economic conditions worsen in the future or if difficult market conditions extend beyond the Company's expectations resulting in a decrease in the fair value of the aforementioned assets below carrying value, the Company will be required to record an impairment loss.

Investment property is 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 or management considers the sale of such property within one year of the balance sheet date to be probable.

Barnwell accounts for sales of Increment I and Increment II leasehold land interests under the full accrual method. Gains from such sales were recognized when the buyer's investments were adequate to demonstrate a commitment to pay for the property, risks and rewards of ownership transferred to the buyer, and Barnwell did not have a substantial continuing involvement with the property sold. With regard to the sales of Increment I and Increment II leasehold land interests, the

percentage of sales payments are contingent future profits which will be recognized when they are realized. All costs of the sales of Increment I and Increment II leasehold land interests were recognized at the time of sale and were not deferred to future periods when any contingent profits will be recognized.

Equity Method Investments

Affiliated companies, which are limited partnerships or similar entities, in which Barnwell holds more than a 3% to 5% ownership interest, are accounted for as equity method investments. Equity method investment adjustments include Barnwell's proportionate share of investee income or loss, adjustments to recognize certain differences between Barnwell's carrying value and Barnwell's equity in net assets of the investee at the date of investment, impairments and other adjustments required by the equity method. Gain 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. At September 30, 2014, 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 6).

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 in the reporting period on a constant basis, of Barnwell's estimated future net cash flows from estimated production of proved oil and natural gas reserves 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.

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.

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 Sheet and recognizes changes in that funded status in the year in which the changes occur through comprehensive income. See further discussion at Note 10 below.

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

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

The expected long-term return on assets assumption for the pension plans represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. The actual fair value of plan assets and estimated rate of return is used to determine the expected investment return during the year. The estimated rate of return on plan assets is based on historical trends combined with long-term expectations, the mix of plan assets and long-term inflation assumptions. A decrease (increase) of 50 basis points in the expected return on assets assumptions would increase (decrease) pension expense by approximately \$36,000 based on the assets of the plan at September 30, 2014.

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. The change in actuarial loss (gain) in fiscal 2014 is primarily due to the adoption of new mortality tables issued by the Society of Actuaries in October 2014 which increase life expectancy assumptions and changes in the discount rates.

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.

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 income, net” in stockholders’ equity.

Realized foreign currency transaction gains and losses are recognized within “Gas processing and other” in the Consolidated Statements of Operations. During the year ended September 30, 2014, Barnwell realized a foreign currency transaction gain of \$271,000 due to the repayment of \$5,000,000 of the U.S. dollar denominated credit facility using Canadian dollars. Realized foreign currency transaction gains or losses were inconsequential in fiscal 2013.

Fair Value Measurements

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

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities in active markets and have the highest priority.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the financial asset or liability and have the lowest priority.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” This update requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The Company adopted the provisions of this ASU effective

October 1, 2013. The adoption of this ASU impacted the presentation of Barnwell's accumulated other comprehensive income footnote disclosures.

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 807,250 and 777,250 shares of common stock were excluded from the computation of diluted shares for fiscal years 2014 and 2013, 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:

	<u>Year ended September 30, 2014</u>		
	<u>Net Earnings (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per-Share Amount</u>
Basic net earnings per share	\$ 672,000	8,277,160	<u>\$ 0.08</u>
Effect of dilutive securities - common stock options	<u>-</u>	<u>1,132</u>	
Diluted net earnings per share	<u>\$ 672,000</u>	<u>8,278,292</u>	<u>\$ 0.08</u>
	<u>Year ended September 30, 2013</u>		
	<u>Net Loss (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per-Share Amount</u>
Basic net loss per share	\$ (8,563,000)	8,277,160	<u>\$ (1.03)</u>
Effect of dilutive securities - common stock options	<u>-</u>	<u>-</u>	
Diluted net loss per share	<u>\$ (8,563,000)</u>	<u>8,277,160</u>	<u>\$ (1.03)</u>

3. SHARE-BASED PAYMENTS

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

	<u>Year ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Share-based compensation benefit	<u>\$ (380,000)</u>	<u>\$ (73,000)</u>
Income tax effect	<u>\$ -</u>	<u>\$ -</u>

Share-based compensation benefit recognized in earnings (loss) for the years ended September 30, 2014 and 2013 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, 2014 and 2013 due to a full valuation allowance on the related deferred tax asset.

Description of Share-Based Payment Arrangements

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

1998 Stock Option Plan: Under the stockholder-approved 1998 Stock Option Plan, Barnwell was authorized to grant up to 780,000 shares of common stock to employees. Option shares are no longer available for grant under the 1998 Stock Option Plan. Stock options grants include qualified options that have an exercise price equal to the closing market price of Barnwell’s stock on the date preceding the date of grant (110% of the closing market price on the date preceding the date of grant for options granted to affiliates), vest annually over four years of continuous service, and expire ten years from the date of grant (five years from date of grant for options granted to affiliates).

Non-qualified stock options: In December 2004, Barnwell granted non-qualified options with an exercise price equal to the closing market price of Barnwell’s stock on the date of grant, that vest annually over five years of continuous service, and that expire ten years from the date of grant. The non-qualified options have stock appreciation rights features 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.

2008 Equity Incentive Plan: 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, 2014, 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 under both the qualified plans and non-qualified plans when the optionee requests shares.

As of September 30, 2014, there was \$64,000 of total unrecognized compensation cost related to nonvested share options. That cost is expected to be recognized over 3.2 years. The weighted-average grant date fair value of employee options granted during the year ended September 30, 2014 was \$2.04 (no options were granted during the year ended September 30, 2013).

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.

The following assumptions were used in estimating fair value for equity-classified share options granted in the year ended September 30, 2014:

Expected volatility	55.6%
Expected dividends	0.0%
Expected term (in years)	10.0
Risk-free interest rate	3.0%
Expected forfeitures	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 equity-classified share options from October 1, 2013 through September 30, 2014 is presented below:

<u>Options</u>	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at October 1, 2013	60,000	\$ 8.62		
Granted	30,000	3.01		
Exercised	-			
Expired/Forfeited	-			
Outstanding at September 30, 2014	<u>90,000</u>	<u>\$ 6.75</u>	<u>3.2</u>	<u>\$ -</u>
Exercisable at September 30, 2014	<u>60,000</u>	<u>\$ 8.62</u>	<u>0.2</u>	<u>\$ -</u>

Total share-based compensation expense for equity-classified awards vested in the year ended September 30, 2014 was \$26,000. There was no share-based compensation expense for equity-classified awards in the prior year period.

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,	
	2014	2013
Expected volatility range	29.0% to 57.2%	47.6% to 64.3%
Weighted-average volatility	45.4%	58.0%
Expected dividends	0.0%	0.0%
Expected term (in years)	0.2 to 9.2	1.2 to 6.2
Risk-free interest rate	0.1% to 2.5%	0.1% to 1.7%
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, 2013 through September 30, 2014 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at October 1, 2013	717,250	\$ 8.37		
Granted	30,000	3.01		
Exercised	-			
Expired/Forfeited	-			
Outstanding at September 30, 2014	<u>747,250</u>	<u>\$ 8.15</u>	<u>3.6</u>	<u>\$ -</u>
Exercisable at September 30, 2014	<u>717,250</u>	<u>\$ 8.37</u>	<u>3.4</u>	<u>\$ -</u>

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

	Year ended September 30,	
	2014	2013
Due to vesting	\$ 21,000	\$ 46,000
Due to remeasurement	<u>(427,000)</u>	<u>(119,000)</u>
Total share-based compensation benefit for liability-based awards	<u>\$ (406,000)</u>	<u>\$ (73,000)</u>

4. ACCOUNTS RECEIVABLE AND CONTRACT COSTS

Accounts receivable are net of allowances for doubtful accounts of \$34,000 and \$43,000 as of September 30, 2014 and 2013, respectively. Included in accounts receivable are contract retainage balances of \$202,000 and \$52,000 as of September 30, 2014 and 2013, respectively. The retainage balance as of September 30, 2014 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 (loss) on uncompleted contracts are as follows:

	September 30,	
	<u>2014</u>	<u>2013</u>
Costs incurred on uncompleted contracts	\$ 6,049,000	\$ 2,457,000
Estimated earnings (loss)	<u>472,000</u>	<u>(251,000)</u>
	6,521,000	2,206,000
Less billings to date	<u>7,094,000</u>	<u>1,629,000</u>
	<u>\$ (573,000)</u>	<u>\$ 577,000</u>

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

	September 30,	
	<u>2014</u>	<u>2013</u>
Costs and estimated earnings in excess of billings on uncompleted contracts (included in other current assets)	\$ 21,000	\$ 1,011,000
Billings in excess of costs and estimated earnings on uncompleted contracts (included in other current liabilities)	<u>(594,000)</u>	<u>(434,000)</u>
	<u>\$ (573,000)</u>	<u>\$ 577,000</u>

5. REAL ESTATE HELD FOR SALE

Kaupulehu 2007 currently owns one luxury residence that is 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.

6. INVESTMENTS

A summary of Barnwell's investments is as follows:

	September 30,	
	<u>2014</u>	<u>2013</u>
Investment in land	\$ 1,192,000	\$ 2,331,000
Investment in land development partnerships	4,658,000	-
Investment in leasehold land interest – Lot 4C	<u>50,000</u>	<u>50,000</u>
Total investments	<u>\$ 5,900,000</u>	<u>\$ 2,381,000</u>

Investment in residential parcels

At September 30, 2014, Kaupulehu 2007 owned two residential parcels 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. One residential parcel is being held for speculative purposes and is not expected to be sold within a year of the balance sheet date. In September 2014, Kaupulehu 2007 entered into a contract to sell the other residential parcel, which closed in October 2014 (see Note 20). The residential parcel to be sold was reclassified to investment held for sale as of September 30, 2014.

Investment in land development partnerships

On November 27, 2013, Barnwell, through a wholly-owned subsidiary, entered into two limited liability limited partnerships, KD Kona 2013 LLLP and KKM Makai, LLLP, and indirectly acquired a 19.6% non-controlling ownership interest in each of KD Kukio Resorts, LLLP, KD Maniniowali, LLLP and KD Kaupulehu, LLLP for \$5,140,000. These entities own certain real estate and development rights interests in the Kukio, Maniniowali and Kaupulehu portions of Kukio Resort, a private residential community on the Kona coast of the island of Hawaii, as well as Kukio Resort's real estate sales office operations. KD Kaupulehu, LLLP, which is comprised of KD I and KD II, is the developer of Kaupulehu Lot 4A Increments I and II, the area in which Barnwell has interests in percentage of sales payments. Barnwell's investment in these entities is accounted for using the equity method of accounting.

The limited liability limited partnership agreements provide for a priority return of Barnwell's investment prior to profit distributions. Net profits, losses and cash flows of the partnerships are allocated to Barnwell and the other partners at varying percentages based on whether the initial and any additional capital contributions have been repaid to the investors.

Barnwell's share of the loss of its equity affiliates was \$482,000 during the year ended September 30, 2014. 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 \$324,000 as of September 30, 2014, which is attributable to differences in the value of capitalized development costs and a note receivable. The basis difference for the capitalized development costs will be recognized as the partnerships sell lots and recognize the associated costs. The basis difference for the note receivable will be recognized as the partnerships sell memberships for the Kukio Golf and Beach Club for which the receivable relates. The basis difference adjustment from the acquisition date to September 30, 2014 was inconsequential.

Barnwell, as well as KD I, KD II and certain other owners of the partnerships, have jointly and severally executed a surety indemnification agreement. Bonds issued by the surety at September 30, 2014 totaled approximately \$5,400,000 and relate to certain construction contracts of KD I and KD II. If any such performance bonds are called, we may be obligated to reimburse the issuer of the performance bond as Barnwell, KD I, KD II and certain other partners are jointly and severally liable, however we believe that it is remote that a material amount of any currently outstanding performance bonds will be called. Performance bonds do not have stated expiration dates. Rather, the performance bonds are released as the underlying performance is completed.

As of September 30, 2014, Barnwell’s maximum loss exposure as a result of its investment in the Kukio Resort land development partnerships was approximately \$10,058,000, consisting of the carrying value of the investment of \$4,658,000 and \$5,400,000 from the surety indemnification agreement of which we are jointly and severally liable.

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

	November 27, 2013 - September 30, 2014
Revenue	\$ 5,114,000
Gross profit	\$ 2,058,000
Net loss	\$ (1,614,000)

Percentage of sales payments

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

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

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

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

42 single-family lots in Phase II of Increment I, and as of September 30, 2014, three of the lots have been sold.

With respect to Increment II, of which only a portion is currently under development, Kaupulehu Developments is entitled to receive future payments from KD II based on a percentage of the sales prices of the residential lots or units, as well as additional payments after the members of KD II have received distributions equal to the capital they invested in the project.

There is no assurance with regards to the amounts of future payments 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. The lease terminates in December 2025.

Investment in joint ventures

On July 25, 2014, Kaupulehu Investors, LLC, an entity in which Barnwell has an 80% interest, received \$3,297,000, with an additional \$102,000 to be received pending the sale of an interest in a related utility, for the sale of Kaupulehu Investors, LLC’s 1.5% passive minority interests in the Hualalai Resort and Kona Village Resort to an independent third party. Kaupulehu Investors, LLC previously wrote off its investment in the Hualalai Resort due to its other-than-temporary decline in fair value and in Kona Village Resort as a result of the March 2011 tsunami which caused the resort to shut down indefinitely. As these previous write downs reduced the carrying value of the investments to zero, Barnwell recognized a \$3,399,000 gain on this transaction, which is reflected in “Gain on sale of investments” in the Consolidated Statements of Operations, of which \$679,000 relates to non-controlling interests. Kaupulehu Investors, LLC’s capital and operating cash call investments in the Hualalai Resort and the Kona Village Resort prior to the sale totaled \$3,193,000.

7. 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
<u>At September 30, 2014:</u>				
Land		\$ 863,000	\$ -	\$ 863,000
Oil and natural gas properties (full cost accounting)		209,702,000	(191,478,000)	18,224,000
Drilling rigs and equipment	3 – 10 years	6,759,000	(5,754,000)	1,005,000
Offices	40 years	2,420,000	(384,000)	2,036,000
Other property and equipment	3 – 17 years	<u>3,279,000</u>	<u>(3,057,000)</u>	<u>222,000</u>
Total		<u>\$ 223,023,000</u>	<u>\$ (200,673,000)</u>	<u>\$ 22,350,000</u>

	Estimated Useful Lives	Gross Property and Equipment	Accumulated Depletion, Depreciation, and Amortization	Net Property and Equipment
<u>At September 30, 2013:</u>				
Land		\$ 863,000	\$ -	\$ 863,000
Oil and natural gas properties (full cost accounting)		239,243,000	(202,400,000)	36,843,000
Drilling rigs and equipment	3 – 10 years	6,758,000	(5,513,000)	1,245,000
Offices	40 years	2,420,000	(324,000)	2,096,000
Other property and equipment	3 – 17 years	<u>3,588,000</u>	<u>(3,329,000)</u>	<u>259,000</u>
Total		<u>\$252,872,000</u>	<u>\$(211,566,000)</u>	<u>\$ 41,306,000</u>

See Note 18 for discussion of divestitures of oil and natural gas properties in fiscal 2014 and the reduction of carrying value of oil and gas properties recognized in fiscal 2013.

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,	
	<u>2014</u>	<u>2013</u>
Asset retirement obligation as of beginning of year	\$ 7,520,000	\$ 5,629,000
Obligations incurred on new wells drilled	105,000	61,000
Liabilities associated with properties sold	(718,000)	-
Revision of estimated obligation	2,437,000	1,783,000
Accretion expense	624,000	499,000
Payments	(111,000)	(222,000)
Foreign currency translation adjustment	<u>(694,000)</u>	<u>(230,000)</u>
Asset retirement obligation as of end of year	9,163,000	7,520,000
Less current portion	<u>(978,000)</u>	<u>-</u>
Asset retirement obligation, long-term	<u>\$ 8,185,000</u>	<u>\$ 7,520,000</u>

Barnwell recognized an additional \$2,437,000 and \$1,783,000 of abandonment and reclamation capitalized costs and liabilities in fiscal 2014 and 2013, respectively, for upward revisions to prior year estimates of costs as a result of the receipt of new and more specific information regarding costs to abandon wells similar to Barnwell's. Additionally, in the current year, a portion of the revision in estimate was related to the Inactive Well Compliance Program, which was introduced by the Alberta Energy Regulator in July 2014, which will accelerate expenditures to suspend and/or abandon long-term inactive wells.

8. INCENTIVE COMPENSATION PLAN

Barnwell established an incentive compensation plan in fiscal 2002 to compensate certain Canadian oil and natural gas segment personnel. The value of the plan is directly related to our oil and natural gas segment's net income and the value of our oil and natural gas reserves discovered for projects developed by such personnel. Barnwell recognized \$0 and \$30,000 of costs pursuant to this plan in fiscal 2014 and 2013, respectively. Amounts accrued under this plan totaled \$68,000 and \$404,000 as of September 30, 2014 and 2013, respectively, and are reported under the caption "Accrued incentive and other compensation" on the Consolidated Balance Sheets.

9. LONG-TERM DEBT

A summary of Barnwell's long-term debt is as follows:

	September 30,	
	<u>2014</u>	<u>2013</u>
Canadian revolving credit facility	\$ 7,000,000	\$ 12,000,000
Real estate loan	<u>4,099,000</u>	<u>4,640,000</u>
	11,099,000	16,640,000
Less current portion	<u>(4,449,000)</u>	<u>(5,240,000)</u>
Total long-term debt	<u>\$ 6,650,000</u>	<u>\$ 11,400,000</u>

Canadian revolving credit facility

On April 29, 2014, Barnwell's credit facility at Royal Bank of Canada was amended and renewed. The amendment, among other things, provides for a decrease in the aggregate principal amount of the revolving credit facility to \$11,800,000 Canadian dollars, or US\$10,528,000 at the September 30, 2014 exchange rate, from \$20,000,000 Canadian dollars. A portion of the decrease in the facility relates to the decrease in security resulting from the sales of oil and natural gas properties discussed in Note 18. The other material terms of the credit facility remain unchanged.

Borrowings under this facility were \$7,000,000 at September 30, 2014 and unused credit available was \$3,273,000 after consideration of issued letters of credit totaling \$255,000. The interest rate on the facility at September 30, 2014 was 2.66%.

The facility is available in U.S. dollars at LIBOR plus 2.50%, at Royal Bank of Canada's U.S. base rate plus 1.50%, or in Canadian dollars at Royal Bank of Canada's prime rate plus 1.50%. A standby fee of 0.6250% per annum is charged on the unused facility balance. Under the financing agreement with Royal Bank of Canada, the facility is reviewed annually, with the next review planned for April 2015. Subject to that review, the facility may be renewed for one year with no required debt repayments or converted to a two-year term loan by the bank. If the facility is converted to a two-year term loan, Barnwell has agreed to the following repayment schedule of the then outstanding loan balance: first year of the term period – 20% (5% per quarter), and in the second year of the term period – 80% (5% per quarter for the first three quarters and 65% in the final quarter). Based on the terms of this agreement, if Royal Bank of Canada were to convert the facility to a two-year term loan upon its next review in April 2015, Barnwell would be obligated to make quarterly principal and interest repayments beginning in July 2015. As such, one quarterly repayment of 5% would be due within one year of

September 30, 2014 and accordingly, we have included \$350,000 in the current portion of long-term debt.

Barnwell has the option to change the currency denomination and interest rate applicable to the loan at periodic intervals during the term of the loan. The facility is guaranteed by Barnwell and is collateralized by a general security agreement on all of the assets of Barnwell's oil and natural gas segment. No compensating bank balances are required for this facility.

Real estate loan

Barnwell, together with its real estate joint venture, Kaupulehu 2007, has a non-revolving real estate loan with a Hawaii bank. Principal and interest are paid monthly and are determined based on a loan amortization schedule. The monthly payment will change as a result of an annual change in the interest rate, the sale of the house or the sale of a residential parcel. The interest rate adjusts each April for the remaining term of the loan to the lender's then prevailing interest rate for similarly priced commercial mortgage loans or a floating rate equal to the lender's base rate. The interest rate at September 30, 2014 was 3.41%. Any unpaid principal balance and accrued interest will be due and payable on April 1, 2018.

The loan is collateralized by, among other things, a first mortgage on Kaupulehu 2007's lots together with all improvements thereon. Kaupulehu 2007 will be required to make a principal payment upon the sale of the house or a residential parcel in the amount of the net sales proceeds of the house or residential parcel; the loan agreement defines net sales proceeds as the gross sales proceeds for the house or residential parcel, less reasonable commissions and normal closing costs.

The loan agreement contains provisions requiring us to maintain compliance with certain covenants including a consolidated debt service coverage ratio and a consolidated total liabilities to tangible net worth ratio.

The home collateralizing the loan is currently available for sale; therefore, the entire balance outstanding at September 30, 2014 under the term loan has been classified as a current liability.

Land investment loan

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

Combined Maturities

Combined maturities of borrowings are as follows based on the assumption that Kaupulehu 2007's home is sold during fiscal 2015 and that Royal Bank of Canada does not renew our facility upon the next review in April 2015 and the facility is therefore converted to a term loan:

<u>Fiscal year ending</u>	
2015	\$ 4,449,000
2016	1,400,000
2017	<u>5,250,000</u>
Total	<u>\$ 11,099,000</u>

10. 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 five-year 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,			
	2014	2013	2014	2013	2014	2013
<i>Change in Projected Benefit Obligation:</i>						
Benefit obligation at beginning of year	\$ 6,858,000	\$ 7,753,000	\$ 1,322,000	\$ 1,512,000	\$ 1,073,000	\$ 1,242,000
Service cost	156,000	272,000	47,000	52,000	12,000	14,000
Interest cost	322,000	299,000	67,000	58,000	54,000	50,000
Actuarial loss (gain)	1,186,000	(1,289,000)	337,000	(294,000)	88,000	(233,000)
Benefits paid	(213,000)	(169,000)	(6,000)	(6,000)	-	-
Administrative expenses paid	(10,000)	(8,000)	-	-	-	-
Benefit obligation at end of year	<u>8,299,000</u>	<u>6,858,000</u>	<u>1,767,000</u>	<u>1,322,000</u>	<u>1,227,000</u>	<u>1,073,000</u>
<i>Change in Plan Assets:</i>						
Fair value of plan assets at beginning of year	6,111,000	5,388,000	-	-	-	-
Actual return on plan assets	784,000	300,000	-	-	-	-
Employer contributions	350,000	600,000	6,000	6,000	-	-
Benefits paid	(213,000)	(169,000)	(6,000)	(6,000)	-	-
Administrative expenses paid	(10,000)	(8,000)	-	-	-	-
Fair value of plan assets at end of year	<u>7,022,000</u>	<u>6,111,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (1,277,000)</u>	<u>\$ (747,000)</u>	<u>\$ (1,767,000)</u>	<u>\$ (1,322,000)</u>	<u>\$ (1,227,000)</u>	<u>\$ (1,073,000)</u>

	Pension		SERP		Postretirement Medical	
	September 30,					
	2014	2013	2014	2013	2014	2013
<i>Amounts recognized in the Consolidated Balance Sheets:</i>						
Current liabilities	\$ -	\$ -	\$ (5,000)	\$ (5,000)	\$ -	\$ -
Noncurrent liabilities	<u>(1,277,000)</u>	<u>(747,000)</u>	<u>(1,762,000)</u>	<u>(1,317,000)</u>	<u>(1,227,000)</u>	<u>(1,073,000)</u>
Net amount	<u>\$ (1,277,000)</u>	<u>\$ (747,000)</u>	<u>\$ (1,767,000)</u>	<u>\$ (1,322,000)</u>	<u>\$ (1,227,000)</u>	<u>\$ (1,073,000)</u>

Amounts recognized in accumulated other comprehensive (loss) income:

Net actuarial loss (gain)	\$ 2,068,000	\$ 1,254,000	\$ 530,000	\$ 200,000	\$ (155,000)	\$ (263,000)
Prior service cost (credit)	<u>81,000</u>	<u>88,000</u>	<u>(80,000)</u>	<u>(87,000)</u>	<u>-</u>	<u>12,000</u>
Accumulated other comprehensive loss (income)	<u>\$ 2,149,000</u>	<u>\$ 1,342,000</u>	<u>\$ 450,000</u>	<u>\$ 113,000</u>	<u>\$ (155,000)</u>	<u>\$ (251,000)</u>

Barnwell estimates that it will make approximately \$250,000 in contributions to the Pension Plan during fiscal 2015. The SERP and Postretirement Medical plans are unfunded and Barnwell will fund benefits when payments are made. Barnwell does not expect to make any benefit payments under the Postretirement Medical plan during fiscal 2015 and expected payments under the SERP for fiscal 2015 are not significant. Fluctuations in actual market returns as well as changes in general interest rates will result in changes in the market value of plan assets and may result in increased or decreased retirement benefits costs and contributions in future periods.

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

	Pension		SERP		Postretirement Medical	
	Year ended September 30,					
	2014	2013	2014	2013	2014	2013
<i>Assumptions used to determine fiscal year-end benefit obligations:</i>						
Discount rate	4.25%	5.00%	4.25%	5.00%	4.25%	5.00%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	N/A	N/A
<i>Assumptions used to determine net benefit costs (years ended):</i>						
Discount rate	5.00%	4.00%	5.00%	4.00%	5.00%	4.00%
Expected return on plan assets	7.00%	7.00%	N/A	N/A	N/A	N/A
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	N/A	N/A

The components of net periodic benefit cost are as follows:

	Pension		SERP		Postretirement Medical	
	Year ended September 30,					
	2014	2013	2014	2013	2014	2013
<i>Net periodic benefit cost for the year:</i>						
Service cost	\$ 156,000	\$ 272,000	\$ 47,000	\$ 52,000	\$ 12,000	\$ 14,000
Interest cost	322,000	299,000	67,000	58,000	54,000	50,000
Expected return on plan assets	(429,000)	(387,000)	-	-	-	-
Amortization of prior service cost (credit)	5,000	5,000	(5,000)	(5,000)	12,000	136,000
Amortization of net actuarial loss (gain)	20,000	103,000	5,000	20,000	(21,000)	-
Net periodic benefit cost	<u>\$ 74,000</u>	<u>\$ 292,000</u>	<u>\$ 114,000</u>	<u>\$ 125,000</u>	<u>\$ 57,000</u>	<u>\$ 200,000</u>

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)	\$ 5,000	\$ (5,000)	\$ -
Net actuarial loss (gain)	<u>84,000</u>	<u>24,000</u>	<u>(5,000)</u>
	<u>\$ 89,000</u>	<u>\$ 19,000</u>	<u>\$ (5,000)</u>

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 \$7,217,000 and \$5,772,000 at September 30, 2014 and 2013, respectively. The accumulated benefit obligation for the SERP was \$1,349,000 and \$1,006,000 at September 30, 2014 and 2013, respectively.

The benefits expected to be paid under the retirement plans as of September 30, 2014 are as follows:

	Pension	SERP	Postretirement Medical
<i>Expected Benefit Payments:</i>			
Fiscal year ending September 30, 2015	\$ 207,000	\$ 5,000	\$ -
Fiscal year ending September 30, 2016	\$ 192,000	\$ 4,000	\$ -
Fiscal year ending September 30, 2017	\$ 256,000	\$ 3,000	\$ -
Fiscal year ending September 30, 2018	\$ 274,000	\$ 3,000	\$ 25,000
Fiscal year ending September 30, 2019	\$ 262,000	\$ 2,000	\$ 28,000
Fiscal years ending September 30, 2020 through 2024	\$ 2,219,000	\$ 539,000	\$ 258,000

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,	
	<u>2014</u>	<u>2013</u>
Health care cost trend rates assumed for next year	7.5%	8.0%
Ultimate cost trend rate	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2020	2020

A 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2014. This assumption is based on the plans' recent experience. It is assumed that the rate will decrease gradually to 5% for fiscal 2020 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:

	<u>1-Percentage Point Increase</u>	<u>1-Percentage Point (Decrease)</u>
Effect on total service and interest cost components	\$ 80,000	\$ (55,000)
Effect on accumulated postretirement benefit obligations	\$ 270,000	\$ (211,000)

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, U.S. treasuries, 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 \$6,000 of Barnwell's stock at September 30, 2014.

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

<u>Asset Category</u>	<u>Target Allocation</u>	<u>September 30,</u>	
		<u>2014</u>	<u>2013</u>
Cash and other	0% - 30%	12%	5%
Fixed income securities	20% - 60%	20%	25%
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, 2014	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	\$ 817,000	\$ 817,000	\$ -	\$ -
Corporate bonds	660,000	660,000	-	-
Fixed income exchange- traded funds	521,000	521,000	-	-
Preferred securities	232,000	232,000	-	-
Equity securities exchange- traded funds	758,000	758,000	-	-
Equities	<u>4,034,000</u>	<u>4,034,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,022,000</u>	<u>\$ 7,022,000</u>	<u>\$ -</u>	<u>\$ -</u>

	Carrying Amount as of September 30, 2013	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	\$ 316,000	\$ 316,000	\$ -	\$ -
U.S. government bonds	97,000	97,000	-	-
Corporate bonds	710,000	710,000	-	-
Fixed income exchange- traded funds	458,000	458,000	-	-
Preferred securities	226,000	226,000	-	-
Equity securities exchange- traded funds	634,000	634,000	-	-
Equities	<u>3,670,000</u>	<u>3,670,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,111,000</u>	<u>\$ 6,111,000</u>	<u>\$ -</u>	<u>\$ -</u>

11. INCOME TAXES

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

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

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

	Year ended September 30,	
	<u>2014</u>	<u>2013</u>
Current (benefit) provision:		
United States – Federal		
Before operating loss carryforwards	\$ 886,000	\$ -
Benefit of operating loss carryforwards	<u>(886,000)</u>	<u>-</u>
After operating loss carryforwards	-	-
United States – State	<u>(1,000)</u>	<u>(82,000)</u>
	(1,000)	(82,000)
Canadian	<u>1,312,000</u>	<u>45,000</u>
Total current	<u>1,311,000</u>	<u>(37,000)</u>
Deferred benefit:		
United States	-	82,000
Canadian	<u>(707,000)</u>	<u>(1,542,000)</u>
Total deferred	<u>(707,000)</u>	<u>(1,460,000)</u>
	<u>\$ 604,000</u>	<u>\$ (1,497,000)</u>

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

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

	Year ended September 30,	
	<u>2014</u>	<u>2013</u>
Tax provision (benefit) computed by applying statutory rate	\$ 447,000	\$ (3,521,000)
Increase in the valuation allowance	615,000	2,978,000
Additional effect of the foreign tax provision on the total tax provision	(467,000)	(1,018,000)
Expiration of foreign tax credit carryforward	-	249,000
State income tax benefit	(31,000)	(365,000)
Other	<u>40,000</u>	<u>180,000</u>
	<u>\$ 604,000</u>	<u>\$ (1,497,000)</u>

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,	
	<u>2014</u>	<u>2013</u>
Deferred income tax assets:		
U.S. tax effect of deferred Canadian taxes	\$ 248,000	\$ 526,000
Foreign tax credit carryover	3,023,000	1,715,000
Alternative minimum tax credit carryover	460,000	460,000
U.S. federal net operating loss carryover	4,017,000	4,903,000
Tax basis of investment in land and residential real estate in excess of book basis	1,842,000	1,756,000
Property and equipment accumulated tax depreciation and depletion in excess of book under U.S. tax law	4,069,000	5,196,000
Liabilities accrued for books but not for tax under U.S. tax law	5,112,000	4,338,000
Liabilities accrued for books but not for tax under Canadian tax law	2,731,000	2,409,000
Other	<u>2,098,000</u>	<u>2,085,000</u>
Total gross deferred tax assets	23,600,000	23,388,000
Less valuation allowance	<u>(20,869,000)</u>	<u>(20,979,000)</u>
Net deferred income tax assets	<u>2,731,000</u>	<u>2,409,000</u>
Deferred income tax liabilities:		
Property and equipment accumulated tax depreciation and depletion in excess of book under Canadian tax law	(3,460,000)	(3,957,000)
Other	<u>(94,000)</u>	<u>(95,000)</u>
Total deferred income tax liabilities	<u>(3,554,000)</u>	<u>(4,052,000)</u>
Net deferred income tax liability	<u>\$ (823,000)</u>	<u>\$ (1,643,000)</u>

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

	September 30,	
	<u>2014</u>	<u>2013</u>
Current deferred income tax asset (included in other current assets)	\$ 378,000	\$ 247,000
Deferred income tax liability	<u>(1,201,000)</u>	<u>(1,890,000)</u>
Net deferred income tax liability	<u>\$ (823,000)</u>	<u>\$ (1,643,000)</u>

The total valuation allowance decreased \$110,000 for the year ended September 30, 2014. The decrease was due primarily to a decrease in the valuation allowance for U.S. federal net operating loss carryovers resulting from the partial usage of such carryovers due to taxable income from the sales of joint venture investments and oil and natural gas properties in the current year, and a decrease in the valuation allowance for deferred tax assets related to property and equipment under U.S. tax law due to changes in the associated temporary differences. The decreases were partially offset by an increase in

the valuation allowance for foreign tax credit carryforwards which are not more likely than not to have a future tax benefit. Of the total decrease in the valuation allowance for fiscal 2014, \$615,000 was recognized as income tax expense and \$725,000 was credited to accumulated other comprehensive loss.

Net deferred tax assets at September 30, 2014 of \$2,731,000 consists of Canadian deferred tax assets related to liabilities accrued for book purposes but not for tax purposes that are estimated to be realized through future Canadian income tax deductions against future Canadian oil and natural gas earnings.

At September 30, 2014, Barnwell had foreign tax credit carryovers, alternative minimum tax credit carryovers, and U.S. federal net operating loss carryovers totaling \$3,023,000, \$460,000 and \$11,816,000, respectively. All three items were fully offset by valuation allowances at September 30, 2014. The net operating loss carryovers expire in fiscal years 2031-2033, and the foreign tax credit carryovers expire in fiscal years 2017-2024.

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

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

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

Below are the changes in unrecognized tax benefits.

	Year ended September 30,	
	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 704,000	\$ 722,000
Accrued interest related to tax positions taken	14,000	14,000
Translation adjustments	<u>(58,000)</u>	<u>(32,000)</u>
Balance at end of year	<u>\$ 660,000</u>	<u>\$ 704,000</u>

The total amount of unrecognized tax benefits at September 30, 2014 that, if recognized, would impact the effective tax rate was \$660,000. Included in the liability for unrecognized tax benefits at September 30, 2014 and 2013, is accrued interest of \$92,000 and \$86,000, respectively.

Uncertain tax positions consist of Canadian federal and provincial audit issues that involve transfer pricing adjustments. Because of a lack of clarity and uniformity regarding allowable transfer

pricing valuations by differing jurisdictions, it is reasonably possible that the total amount of uncertain tax positions may significantly increase or decrease within the next 12 months, and the estimated range of any such variance is not currently estimable based upon facts and circumstances as of September 30, 2014.

Included below is a summary of the tax years, by jurisdiction, that remain subject to examination by taxing authorities at September 30, 2014:

<u>Jurisdiction</u>	<u>Fiscal Years Open</u>
U.S. federal	2011 – 2013
Various U.S. states	2011 – 2013
Canada federal	2005, 2007 – 2013
Various Canadian provinces	2005, 2007 – 2013

12. SEGMENT AND GEOGRAPHIC INFORMATION

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

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

	Year ended September 30,	
	<u>2014</u>	<u>2013</u>
Revenues:		
Oil and natural gas	\$ 20,298,000	\$ 21,376,000
Land investment	636,000	282,000
Contract drilling	6,287,000	2,338,000
Other	<u>796,000</u>	<u>567,000</u>
Total before gain on sale of investments and interest income	28,017,000	24,563,000
Gain on sale of investments	3,399,000	-
Interest income	<u>29,000</u>	<u>45,000</u>
Total revenues	<u>\$ 31,445,000</u>	<u>\$ 24,608,000</u>
Depletion, depreciation, and amortization:		
Oil and natural gas	\$ 5,968,000	\$ 8,034,000
Contract drilling	309,000	394,000
Other	<u>114,000</u>	<u>114,000</u>
Total depletion, depreciation, and amortization	<u>\$ 6,391,000</u>	<u>\$ 8,542,000</u>
Reduction of carrying value of assets:		
Oil and natural gas	<u>\$ -</u>	<u>\$ 4,506,000</u>
Operating profit (loss)		
(before general and administrative expenses):		
Oil and natural gas	\$ 5,416,000	\$ (1,156,000)
Land investment	636,000	282,000
Contract drilling	952,000	(295,000)
Other	<u>682,000</u>	<u>453,000</u>
Total operating profit (loss)	7,686,000	(716,000)
Equity in loss of affiliates:		
Land investment	(482,000)	-
General and administrative expenses	(8,026,000)	(8,911,000)
Interest expense	(664,000)	(587,000)
Gain on sale of investments	3,399,000	-
Interest income	<u>29,000</u>	<u>45,000</u>
Income (loss) before income taxes	<u>\$ 1,942,000</u>	<u>\$ (10,169,000)</u>

Capital Expenditures:

	Year ended September 30,	
	2014	2013
Oil and natural gas	\$ 4,824,000	\$ 7,506,000
Contract drilling	48,000	17,000
Other	51,000	2,000
Total	<u>\$ 4,923,000</u>	<u>\$ 7,525,000</u>

Assets By Segment:

	September 30,	
	2014	2013
Oil and natural gas ⁽¹⁾	\$ 20,951,000	\$ 40,559,000
Land investment ⁽²⁾	7,039,000	2,381,000
Contract drilling ⁽²⁾	1,849,000	2,905,000
Residential real estate ⁽²⁾	5,448,000	5,448,000
Other:		
Cash and cash equivalents	16,104,000	7,828,000
Corporate and other	3,379,000	3,593,000
Total	<u>\$ 54,770,000</u>	<u>\$ 62,714,000</u>

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

(2) Located in Hawaii.

Long-Lived Assets By Geographic Area:

	September 30,	
	2014	2013
United States	\$ 9,884,000	\$ 6,699,000
Canada	18,366,000	36,988,000
Total	<u>\$ 28,250,000</u>	<u>\$ 43,687,000</u>

Revenue By Geographic Area:

	Year ended September 30,	
	2014	2013
United States	\$ 6,924,000	\$ 2,643,000
Canada	21,093,000	21,920,000
Total (excluding gain on sale of investments and interest income)	<u>\$ 28,017,000</u>	<u>\$ 24,563,000</u>

13. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

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

	Year ended September 30,	
	<u>2014</u>	<u>2013</u>
Foreign currency translation:		
Beginning accumulated foreign currency translation	<u>\$ 3,701,000</u>	<u>\$ 5,020,000</u>
Change in cumulative translation adjustment before reclassifications	(1,738,000)	(1,319,000)
Amounts reclassified from accumulated other comprehensive income	(271,000)	-
Income taxes	<u>-</u>	<u>-</u>
Net current period other comprehensive loss	<u>(2,009,000)</u>	<u>(1,319,000)</u>
Ending accumulated foreign currency translation	<u>1,692,000</u>	<u>3,701,000</u>
Retirement plans:		
Beginning accumulated retirement plans benefit cost	<u>(710,000)</u>	<u>(2,698,000)</u>
Amortization of net actuarial loss and prior service cost	16,000	259,000
Net actuarial (loss) gain arising during the period	(1,256,000)	1,729,000
Income taxes	<u>-</u>	<u>-</u>
Net current period other comprehensive (loss) income	<u>(1,240,000)</u>	<u>1,988,000</u>
Ending accumulated retirement plans benefit cost	<u>(1,950,000)</u>	<u>(710,000)</u>
Accumulated other comprehensive (loss) income, net of taxes	<u>\$ (258,000)</u>	<u>\$ 2,991,000</u>

The realized foreign currency transaction gain related to the repayment of debt was reclassified from accumulated other comprehensive income to “Gas processing and other” income on the accompanying Consolidated Statements of Operations. The amortization of accumulated other comprehensive loss components for the retirement plans are included in the computation of net periodic benefit cost which is a component of “General and administrative” expenses on the accompanying Consolidated Statements of Operations (see Note 10 for additional details).

14. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

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

15. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Barnwell has several non-cancelable operating leases for office space and leasehold land. Rental expense was \$548,000 and \$521,000 for the years ended September 30, 2014 and 2013, respectively. Barnwell is committed under these leases for minimum rental payments summarized by fiscal year as follows:

<u>Fiscal year ending</u>	
2015	\$ 305,000
2016	299,000
2017	264,000
2018	154,000
2019	134,000
Thereafter through 2026	<u>403,000</u>
Total	<u>\$ 1,559,000</u>

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

Environmental Matters

As of September 30, 2014 and 2013, environmental remediation costs of \$501,000 and \$783,000, respectively, which have not been discounted, were accrued in “Accrued operating and other expenses” on the Consolidated Balance Sheets. The amounts accrued represent the estimated liability for probable environmental remediation costs for soil contamination from infrastructure issues at the Dunvegan and Wood River properties. Because of the inherent uncertainties associated with environmental assessment and remediation activities, future expenses to remediate the currently identified sites, and sites identified in the future, if any, could be incurred.

Guarantee

See Note 6 for a discussion of Barnwell’s guarantee of the Kukio Resort land development partnership’s performance bonds.

Legal and Regulatory Matters

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

Other Matters

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

In conjunction with the closing of the Increment II transaction in fiscal 2006, Kaupulehu Developments entered into an agreement to pay its external real estate legal counsel 1.5% of all Increment II percentage of sales payments received by Kaupulehu Developments for services provided by its external real estate legal counsel in the negotiation and closing of the Increment II transaction. No amounts were paid pursuant to this arrangement in fiscal years 2014 or 2013.

16. CONCENTRATIONS OF CREDIT RISK

Our oil and natural gas segment's primary concentration of credit risk is associated with five customers that individually accounted for more than 10% of total oil and natural gas segment accounts receivable: Shell Trading Canada, Suncor Energy, Direct Energy Marketing, Keyera Partnership and Glencoe Resources. At September 30, 2014, these customers accounted for 33%, 17%, 17%, 13% and 10%, respectively, or in aggregate \$1,082,000, of our oil and natural gas accounts receivables.

Management does not believe significant credit risk related to these trade receivables exists at September 30, 2014 based on prior historical experience.

17. 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:

	<u>Year ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
<i>Increase (decrease) from changes in:</i>		
Receivables	\$ 542,000	\$ 180,000
Other current assets	1,629,000	(1,218,000)
Accounts payable	(681,000)	1,863,000
Accrued compensation	(117,000)	155,000
Other current liabilities	<u>976,000</u>	<u>(499,000)</u>
Increase from changes in current assets and liabilities	<u>\$ 2,349,000</u>	<u>\$ 481,000</u>
<i>Supplemental disclosure of cash flow information:</i>		
Cash paid during the year for:		
Interest	<u>\$ 646,000</u>	<u>\$ 564,000</u>
Income taxes paid, net of refunds	<u>\$ 765,000</u>	<u>\$ 438,000</u>
<i>Supplemental disclosure of non-cash investing and financing activities:</i>		
Receivable for proceeds on sale of investments	<u>\$ 102,000</u>	<u>\$ -</u>

Capital expenditure accruals related to oil and natural gas exploration and development decreased \$1,195,000 and increased \$1,559,000 during the years ended September 30, 2014 and 2013, respectively. Additionally, during the years ended September 30, 2014 and 2013, capital expenditure accruals related to oil and natural gas asset retirement obligations increased \$2,542,000 and \$1,844,000, respectively.

18. OIL AND NATURAL GAS PROPERTIES

Under the full cost method of accounting, the Company performs quarterly ceiling test calculations. Barnwell's net capitalized costs exceeded the ceiling limitations at December 31, 2012 and March 31, 2013. As such, Barnwell reduced the carrying value of its oil and natural gas properties by \$4,506,000 during the year ended September 30, 2013. No such reduction was necessary during the current fiscal year.

In February 2014, Barnwell entered into a Purchase and Sale Agreement with an independent third party and sold its interests in oil properties located in the Mantario area of Saskatchewan, Canada. The sales price per the agreement was adjusted for customary purchase price adjustments to \$2,726,000 in order to, among other things, reflect an economic effective date of January 1, 2014.

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

effective date of March 1, 2014. The final determination of the customary adjustments to the purchase price has not yet been made however it is not expected to result in material adjustments.

In May 2014, Barnwell entered into a Purchase and Sale Agreement with an independent third party and sold its interests in certain oil and natural gas properties located in the Boundary Lake area of Alberta and British Columbia, Canada. The sales price per the agreement was adjusted for preliminary purchase price adjustments to approximately \$6,120,000 in order to, among other things, reflect an economic effective date of January 1, 2014. The final determination of the customary adjustments to the purchase price has not yet been made however it is not expected to result in material adjustments.

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

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

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

19. RELATED PARTY TRANSACTIONS

Kaupulehu Developments is entitled to receive a percentage of the gross receipts from the sales of single-family residential lots in Increment I from KD I, a land development partnership in which Barnwell holds a 19.6% non-controlling ownership interest accounted for under the equity method of investment. The percentage payments are part of a 2004 transaction where Kaupulehu Developments sold its leasehold interest in Increment I, which was prior to Barnwell's affiliation with KD I which commenced on November 27, 2013, the acquisition date of our ownership interest in the Kukio Resort land development partnerships.

From the acquisition date to September 30, 2014, Barnwell received \$600,000 in percentage of sales payments from KD I from the sale of two lots in Increment I. All other lot sales reflected in the financial statements occurred prior to our purchase of ownership interests in the Kukio Resort land development partnerships.

20. SUBSEQUENT EVENTS

In October 2014, Kaupulehu 2007 sold one residential parcel for \$1,250,000 and received \$343,000 in cash and a purchase money mortgage from the buyer for the remainder of the sales price. The mortgage is due 270 days from the closing date. Barnwell is required to use the proceeds from the sale of the lot to pay down the principal of its real estate loan.

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

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

Financial results from the above transactions will be reflected in Barnwell's fiscal year ending September 30, 2015.

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, 2012	1,078,000	11,109,000	2,993,000
Revisions of previous estimates	46,000	1,137,000	242,000
Extensions, discoveries and other additions	28,000	17,000	31,000
Less production	<u>(229,000)</u>	<u>(2,018,000)</u>	<u>(577,000)</u>
Balance at September 30, 2013	923,000	10,245,000	2,689,000
Revisions of previous estimates	189,000	1,798,000	499,000
Extensions, discoveries and other additions	34,000	189,000	67,000
Less sales of reserves	(238,000)	(840,000)	(383,000)
Less production	<u>(184,000)</u>	<u>(1,927,000)</u>	<u>(516,000)</u>
Balance at September 30, 2014	<u>724,000</u>	<u>9,465,000</u>	<u>2,356,000</u>

(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,	
	<u>2014</u>	<u>2013</u>
Proved properties	\$ 209,201,000	\$ 237,977,000
Unproved properties	<u>501,000</u>	<u>1,266,000</u>
Total capitalized costs	209,702,000	239,243,000
Accumulated depletion and depreciation	<u>191,478,000</u>	<u>202,400,000</u>
Net capitalized costs	<u>\$ 18,224,000</u>	<u>\$ 36,843,000</u>

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

	Year ended September 30,	
	<u>2014</u>	<u>2013</u>
Acquisition of properties:		
Unproved	\$ 42,000	\$ 250,000
Proved	-	-
Exploration costs	884,000	1,485,000
Development costs	<u>3,898,000</u>	<u>5,771,000</u>
Total	<u>\$ 4,824,000</u>	<u>\$ 7,506,000</u>

Development costs incurred in the table above include additions and revisions to Barnwell's asset retirement obligation of \$2,542,000 and \$1,844,000 for the years ended September 30, 2014 and 2013, respectively.

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

	Year ended September 30,	
	<u>2014</u>	<u>2013</u>
Net revenues	\$ 20,298,000	\$ 21,376,000
Production costs	8,914,000	9,992,000
Depletion	5,968,000	8,034,000
Reduction of carrying value of oil and natural gas properties	<u>-</u>	<u>4,506,000</u>
Pre-tax results of operations*	5,416,000	(1,156,000)
Estimated income tax (expense) benefit	<u>(1,557,000)</u>	<u>335,000</u>
Results of operations*	<u>\$ 3,859,000</u>	<u>\$ (821,000)</u>

* Before general and administrative expenses, interest expense, and foreign exchange gains and losses.

(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, 2014 and 2013 were based on weighted average sales prices, based upon the average of the price 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, 2014 and

2013 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,	
	<u>2014</u>	<u>2013</u>
Future cash inflows	\$ 82,912,000	\$ 99,867,000
Future production costs	(40,156,000)	(48,186,000)
Future development costs	(1,966,000)	(1,472,000)
Future income tax expenses	<u>(9,671,000)</u>	<u>(7,800,000)</u>
Future net cash flows	31,119,000	42,409,000
10% annual discount for timing of cash flows	<u>(6,972,000)</u>	<u>(10,475,000)</u>
Standardized measure of discounted future net cash flows	<u>\$ 24,147,000</u>	<u>\$ 31,934,000</u>

Changes in the Standardized Measure of Discounted Future Net Cash Flows

	Year ended September 30,	
	<u>2014</u>	<u>2013</u>
Beginning of year	<u>\$ 31,934,000</u>	<u>\$ 35,290,000</u>
Sales of oil and natural gas produced, net of production costs	(11,384,000)	(11,384,000)
Net changes in prices and production costs, net of royalties and wellhead taxes	8,670,000	4,275,000
Extensions and discoveries	2,199,000	831,000
Sales of reserves	(8,408,000)	-
Revisions of previous quantity estimates	4,862,000	857,000
Net change in income taxes	(4,148,000)	(433,000)
Accretion of discount	2,931,000	3,376,000
Other - changes in the timing of future production and other	(237,000)	495,000
Other - net change in Canadian dollar translation rate	<u>(2,272,000)</u>	<u>(1,373,000)</u>
Net change	<u>(7,787,000)</u>	<u>(3,356,000)</u>
End of year	<u>\$ 24,147,000</u>	<u>\$ 31,934,000</u>

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, 2014, 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, 2014 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 based on the framework in *Internal Control — Integrated Framework* (1992 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (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, 2014.

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, 2014 that materially affected, or is reasonably likely to materially affect, Barnwell's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On December 12, 2014, the Board of Directors of Barnwell amended the Company's Amended and Restated By-laws (the "By-laws"), effective on such date. A copy of the By-laws, as so amended and restated, is filed as Exhibit 3.2 to this Annual Report on Form 10-K and incorporated by reference herein.

The following is a summary of the material amendments to the By-laws.

1. A new Article XII (Forum Selection and Certain Litigation Costs) was added.

New Section 12.1 of such new Article (Forum for Certain Actions) provides that, unless a majority of the Board of Directors, acting on behalf of Barnwell, consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another state court located within the State of Delaware or, if no court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) shall be the sole and exclusive forum for:

- (i) any derivative action or proceeding brought on behalf of Barnwell,
- (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of Barnwell to Barnwell or its stockholders,
- (iii) any action asserting a claim against Barnwell or any of its directors, officers or other employees arising pursuant to any provision of the Delaware General Corporation Law, Barnwell's Certificate of Incorporation or Barnwell's By-laws (in each case, as may be amended from time to time), or
- (iv) any action asserting a claim against Barnwell or any of its directors, officers or other employees governed by the internal affairs doctrine of the State of Delaware.

New Section 12.1 of such new Article also provides that if any such actions are filed in a court other than a court located within the State of Delaware (a "Foreign Action") in the name of any stockholder, such stockholder shall be deemed to have consented to (i) the personal jurisdiction of the state and federal courts located within the State of Delaware in connection with any action brought in any such court to enforce these By-law provisions and (ii) having service of process made upon such stockholder in any such enforcement action by service upon such stockholder's counsel in the Foreign Action as agent for such stockholder.

Furthermore, new Section 12.2 (Litigation Costs) of such new Article provides that:

- (i) to the fullest extent permitted by law, in the event that (A) any current or prior stockholder or anyone on their behalf ("Claiming Party") initiates or asserts any claim or counterclaim ("Claim") or joins, offers substantial assistance to, or has a direct financial interest in any Claim against Barnwell and/or any of its current or former directors, officers, employees or any of their respective affiliates (together, the "Barnwell Parties"), and (B) the Claiming Party (or the third party that received substantial assistance from the Claiming Party or in whose Claim the Claiming Party had a direct financial interest) does not obtain a judgment on the merits that substantially achieves, in substance and amount, the full remedy sought, then each Claiming Party shall be obligated jointly and severally to reimburse the Barnwell Parties the greatest amount permitted by law of all fees, costs and expenses of every kind and description (including but not limited to, all reasonable attorney's fees and other litigation expenses) (collectively, "Litigation Costs") that the Barnwell Parties may incur in connection with such Claim,
- (ii) to the fullest extent permitted by law, in the event that any Claiming Party initiates or asserts any Claim or joins, offers substantial assistance to, or has a direct financial interest in any Claim against any Barnwell Parties, then, regardless whether the Claiming Party is successful on its Claim in whole or in part, (i) the Claiming Party shall bear its

- own Litigation Costs, and (ii) the Claiming Party and the Claiming Party's attorneys shall not be entitled to recover any Litigation Costs or, in a derivative or class action, to receive any fees or expenses as the result of the creation of any common fund, or from a corporate benefit purportedly conferred upon Barnwell, and
- (iii) the foregoing provisions shall not apply with respect to any Claim asserted or proceeding initiated by any person for which such person is entitled to indemnification under certain sections of Barnwell's By-laws.

2. A new ARTICLE XIII (SEVERABILITY) was added. This new article provides that if any provision (or any part thereof) of Barnwell's By-laws shall be held to be invalid, illegal or unenforceable as applied to any circumstance for any reason whatsoever:

- (i) the validity, legality and enforceability of such provisions in any other circumstance and of the remaining provisions of the By-laws (including, without limitation, each portion of any section of the By-laws containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and
- (ii) to the fullest extent possible, the provisions of the By-laws (including, without limitation, each such portion containing any such provision held to be invalid, illegal or unenforceable) shall be construed for the benefit of Barnwell to the fullest extent permitted by law so as to (a) give effect to the intent manifested by the provision held invalid, illegal or unenforceable, and (b) permit Barnwell to protect its directors, officers, employees and agents from personal liability in respect of their good faith service.

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, 2014, 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, 2014, 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, 2014, 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 all of Barnwell's existing equity compensation plans as of September 30, 2014:

<u>Plan Category</u>	<u>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>(b) Weighted-average price of outstanding options, warrants and rights</u>	<u>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
Equity compensation plans approved by security holders	837,250	\$8.00	62,500
Equity compensation plans not approved by security holders	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>837,250</u>	<u>\$8.00</u>	<u>62,500</u>

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, 2014, 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, 2014, 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, 2014 and 2013

Consolidated Statements of Operations – for the years ended September 30, 2014 and 2013

Consolidated Statements of Comprehensive Loss –
for the years ended September 30, 2014 and 2013

Consolidated Statements of Cash Flows – for the years ended September 30, 2014 and 2013

Consolidated Statements of Equity – for the years ended September 30, 2014 and 2013

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
4.0	Form of the Registrant's certificate of common stock, par value \$.50 per share ⁽²⁾
10.1	The Barnwell Industries, Inc. Employees' Pension Plan (restated as of October 1, 1989) ⁽³⁾
10.2	Phase I Makai Development Agreement dated June 30, 1992, by and between Kaupulehu Makai Venture and Kaupulehu Developments ⁽⁴⁾
10.3	KD/KMV Agreement dated June 30, 1992 by and between Kaupulehu Makai Venture and Kaupulehu Developments ⁽⁴⁾
10.4	Form of Purchase and Sale Agreement dated February 13, 2004 by and between Kaupulehu Developments and WB KD Acquisition, LLC ⁽⁵⁾
10.5	Form of Agreement Re Step In Rights of Kaupulehu Developments dated February 13, 2004 ⁽⁶⁾
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 ⁽⁷⁾
10.7	Limited Liability Limited Partnership Agreement of KD Kona 2013 LLLP dated November 27, 2013 ⁽⁸⁾
10.8	Limited Liability Limited Partnership Agreement of KKM Makai, LLLP dated November 27, 2013 ⁽⁸⁾

10.9	Loan Agreement, dated as of November 27, 2013 between KD Kona 2013 LLLP and KKM Makai, LLLP, as the borrowers, and American Savings Bank, F.S.B. as the lender ⁽⁸⁾
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 Form 10-K for the year ended September 30, 2013.

⁽²⁾ 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.

⁽³⁾ Incorporated by reference to Form 10-K for the year ended September 30, 1989.

⁽⁴⁾ Incorporated by reference to Form 10-K for the year ended September 30, 1992.

⁽⁵⁾ Incorporated by reference to the Registrant's Form 8-K filed on February 13, 2004 and previously listed as Exhibit 2.1 in Barnwell's Form 10-QSB for the quarterly period ended March 31, 2004.

⁽⁶⁾ Incorporated by reference to the Registrant's Form 8-K filed on February 13, 2004 and previously listed as Exhibit 2.2 in Barnwell's Form 10-QSB for the quarterly period ended March 31, 2004.

⁽⁷⁾ Incorporated by reference to Form 10-Q for the quarterly period ended June 30, 2009.

⁽⁸⁾ Incorporated by reference to Form 10-Q for the quarterly period ended December 31, 2013.

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)

By: /s/ Russell M. Gifford
Russell M. Gifford
Chief Financial Officer,
Executive Vice President,
Treasurer and Secretary
Date: December 18, 2014

SIGNATURES (continued)

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

/s/ Morton H. Kinzler

Morton H. Kinzler
Chief Executive Officer and
Chairman of the Board
Date: December 18, 2014

/s/ Russell M. Gifford

Russell M. Gifford
Executive Vice President,
Chief Financial Officer, Treasurer,
Secretary and Director
Date: December 18, 2014

/s/ Alexander C. Kinzler

Alexander C. Kinzler
President, Chief Operating Officer,
General Counsel and Director
Date: December 18, 2014

/s/ Martin Anderson

Martin Anderson, Director
Date: December 18, 2014

/s/ James S. Barnwell

James S. Barnwell, Director
Date: December 18, 2014

/s/ Murray C. Gardner

Murray C. Gardner, Director
Date: December 18, 2014

/s/ Ahron H. Haspel

Ahron H. Haspel, Director
Date: December 18, 2014

/s/ Robert J. Inglima, Jr.

Robert J. Inglima, Jr., Director
Date: December 18, 2014

/s/ Diane G. Kranz

Diane G. Kranz, Director
Date: December 18, 2014

/s/ Kevin K. Takata

Kevin K. Takata, Director
Date: December 18, 2014

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 - (7) Incorporated by reference to Form 10-Q for the quarterly period ended June 30, 2009.
 - (8) Incorporated by reference to Form 10-Q for the quarterly period ended December 31, 2013.

BARNWELL INDUSTRIES, INC.

–A Delaware Corporation–

BY-LAWS

AMENDED AND RESTATED

As Amended and Restated as of December 12, 2014

ARTICLE I

Meetings of Stockholders

Section 1.1. Annual Meetings. The annual meeting of the stockholders of Barnwell Industries, Inc. (the “Corporation”) for the election of directors and for the transaction of such other business as may properly come before such meeting shall be held at such date, time and place, if any, as shall be determined by the Board of Directors. The Board of Directors may, in its sole discretion, determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication in accordance with Section 211(a)(2) of the General Corporation Law of the State of Delaware (the “DGCL”).

Section 1.2. Special Meetings. Special meetings of the stockholders of the Corporation may be called by or at the direction a majority of the members of the Board of Directors, the Chairman of the Board of Directors, the Chief Executive Officer or the President of the Corporation and shall be called by the Secretary at the request in writing of stockholders of record of at least twenty-five percent (25%) in amount of the entire capital stock of the corporation issued and outstanding and entitled to vote thereat. Any such request shall state the purpose or purposes of the proposed special meeting and shall comply with all the requirements set forth in these By-laws. The business transacted at a special meeting of the stockholders shall be limited to the purpose or purposes stated in the notice of the meeting. Special meetings of the stockholders shall be held at such place, if any, and on such date and at such time as the Board of Directors shall determine (or the Chairman of the Board of Directors in the absence of a designation by the Board of Directors). The Board of Directors may, in its sole discretion, determine that any special meeting shall not be held at any place, but may instead be held solely by means of remote communication in accordance with Section 211(a)(2) of the DGCL.

Section 1.3. Notice of Meetings; Waiver of Notice.

(a) Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given and shall state the place (if any), date and time of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by law, the written notice of any meeting shall be given not less than ten (10) nor more than sixty (60) days before the date

of the meeting to each stockholder entitled to vote at such meeting. If mailed, such notice shall be directed to each stockholder at his address as it appears on the records of the Corporation.

(b) Waiver of Notice. Whenever notice is required to be given to the stockholders under any provision of law, the Certificate of Incorporation of the Corporation or these By-laws, a written waiver signed by a stockholder entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a stockholder at a meeting shall constitute a waiver of notice of such meeting, except when the stockholder attends such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the Certificate of Incorporation of the Corporation.

Section 1.4. Quorum. The presence at any meeting, in person or by proxy, of the holders of record of a majority of the shares then issued and outstanding and entitled to vote shall be necessary and sufficient to constitute a quorum for the transaction of business, except as otherwise provided by law or the Certificate of Incorporation of the Corporation.

Section 1.5. Adjournments. In the absence of a quorum, a majority in interest of the stockholders entitled to vote, present in person or by proxy at a meeting, or, if no stockholder entitled to vote is present in person or by proxy, any officer entitled to act as chairman or secretary of such meeting, may adjourn the meeting to another time or place.

When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 1.6. Organization. The Chairman of the Board, or, if there is no Chairman or in his absence or disability, the Vice Chairman, if any, the President or any Vice President, or, in the absence of all of them, a chairman appointed by the stockholders, shall act as chairman of all meetings of stockholders. The Secretary of the Corporation or, in his absence or disability, any Assistant Secretary of the Corporation, or, in the absence of both of them, a secretary appointed by the chairman of the meeting, shall act as secretary at all meetings of stockholders.

Section 1.7. Voting. Unless otherwise provided in the Certificate of Incorporation of the Corporation or required by law, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder which is registered in his name on the record date for the meeting. Unless otherwise provided in the Certificate of Incorporation, directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Except as otherwise provided by law, in all other matters the affirmative vote of a majority of the shares present in

person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Voting, including voting for the election of directors, need not be by written ballot.

Section 1.8. Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate actions in writing may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power.

Section 1.9. Voting by Fiduciaries and Pledgors. Persons holding stock in a fiduciary capacity shall be entitled to vote the shares so held, and persons whose stock is pledged shall be entitled to vote, unless in the transfer by the pledgor on the books of the Corporation, he has expressly empowered the pledgee to vote thereon, in which case only the pledgee or his proxy may represent said stock and vote thereon.

Section 1.10. Stockholder List. For a period of at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting showing the address and number of shares registered in the name of each stockholder shall be open to the examination of any stockholder, for any purpose germane to the meeting, (i) on a reasonably accessible electronic network, provided that, the information required to access such list is provided with the notice of meeting or (ii) during ordinary business hours, at the principal place of business of the Corporation. The list shall also be produced and kept at the time and place of the meeting during the entire time thereof, and may be inspected by any stockholder who is present.

Section 1.11. Inspectors of Election. In advance of any stockholders' meeting, the Board of Directors shall appoint one or more inspectors to act at the meeting and make a written report thereof. The Board of Directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

Section 1.12. Fixing the Record Date. So that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or to receive payment of any dividend or other distribution or allotment of any rights, or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix in advance a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and (i) in the case of a meeting, shall not be more than 60 nor less than 10 days before the date of such meeting, or (ii) in the case of a written consent, shall not exceed by more than 10 days the date upon which the resolution fixing the record date is adopted by the Board of Directors, or (iii) in the case of any other action, shall not be more than 60 days prior to such

action. Only those stockholders of record on the date so fixed shall be entitled to any of the foregoing rights, notwithstanding the transfer of any stock on the books of the Corporation after any such record date fixed by the Board of Directors.

Section 1.13. Notice of Stockholder Business and Nominations.

(A) Annual Meetings of Stockholders.

(1) Nominations of persons for election to the Board of Directors and the proposal of other business to be considered by the stockholders may be made at an annual meeting of stockholders only (a) pursuant to the Corporation's notice of meeting (or any supplement thereto) delivered pursuant to Article I, Section 1.3 of these By-Laws, (b) by or at the direction of the Board of Directors or any committee thereof or (c) by any stockholder of the Corporation who is entitled to vote on such election or such other business at the meeting, who complied with the notice procedures set forth in subparagraphs (2) and (3) of this paragraph (A) of this By-Law and who was a stockholder of record at the time such notice is delivered to the Secretary of the Corporation.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation, and, in the case of business other than nominations of persons for election to the Board of Directors, such other business must be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting is changed by more than thirty (30) days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made; and provided further, that for purposes of the application of Rule 14a-4(c) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (or any successor provision), the date for notice specified in this paragraph (A)(2) shall be the earlier of the date calculated as hereinbefore provided or the date specified in paragraph (c)(1) of Rule 14a-4.

Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder, including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions

proposed for consideration and, in the event that such business includes a proposal to amend these By-Laws, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class or series and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (iii) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, (iv) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (A) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (B) otherwise to solicit proxies from stockholders in support of such proposal or nomination, (v) a certification regarding whether such stockholder and beneficial owner, if any, have complied with all applicable federal, state and other legal requirements in connection with the stockholder's and/or beneficial owner's acquisition of shares of capital stock or other securities of the Corporation and/or the stockholder's and/or beneficial owner's acts or omissions as a stockholder of the Corporation and (vi) any other information relating to such stockholder and beneficial owner, if any, required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in an election contest pursuant to and in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder; (d) a description of any agreement, arrangement or understanding with respect to the nomination or proposal and/or the voting of shares of any class or series of stock of the Corporation between or among the stockholder giving the notice, the beneficial owner, if any, on whose behalf the nomination or proposal is made, any of their respective affiliates or associates and/or any others acting in concert with any of the foregoing (collectively, "proponent persons"); and (e) a description of any agreement, arrangement or understanding (including without limitation any contract to purchase or sell, acquisition or grant of any option, right or warrant to purchase or sell, swap or other instrument) to which any proponent person is a party, the intent or effect of which may be (i) to transfer to or from any proponent person, in whole or in part, any of the economic consequences of ownership of any security of the Corporation, (ii) to increase or decrease the voting power of any proponent person with respect to shares of any class or series of stock of the Corporation and/or (iii) to provide any proponent person, directly or indirectly, with the opportunity to profit or share in any profit derived from, or to otherwise benefit economically from, any increase or decrease in the value of any security of the Corporation. A stockholder providing notice of a proposed nomination for election to the Board of Directors or other business proposed to be brought before a meeting (whether given pursuant to this paragraph (A)(2) or paragraph (B) of this By-Law) shall update and supplement such notice from time to time to the extent necessary so that the information provided or required to be provided in such notice shall be true and correct as of the

record date for the meeting and as of the date that is fifteen (15) days prior to the meeting or any adjournment or postponement thereof; such update and supplement shall be delivered in writing to the Secretary at the principal executive offices of the Corporation not later than five (5) days after the record date for the meeting (in the case of any update and supplement required to be made as of the record date), and not later than ten (10) days prior to the date for the meeting or any adjournment or postponement thereof (in the case of any update and supplement required to be made as of fifteen (15) days prior to the meeting or any adjournment or postponement thereof). The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation and to determine the independence of such director under the Exchange Act and rules and regulations thereunder and applicable stock exchange rules.

(3) Notwithstanding anything in paragraph (A)(2) of this By-Law to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased, effective after the time period for which nominations would otherwise be due under paragraph (A)(2) of this By-Law, and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least eighty (80) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this By-Law shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which a public announcement of such increase is first made by the Corporation; provided that, if no such announcement is made at least ten (10) days before the meeting, then no such notice shall be required.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting pursuant to Article I, Section 1.3 of these By-Laws. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors or a committee thereof (or stockholders pursuant to Article I, Section 1.2 of these By-Laws) or (b) provided that the Board of Directors (or stockholders pursuant to Article I, Section 1.22 of these By-Laws) has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is entitled to vote on such election at the meeting who complies with the notice procedures set forth in this By-Law and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation. The proposals by stockholders of other business to be conducted at a special meeting of stockholders may be made only in accordance with Article I, Section 1.2 of these By-Laws. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting if the stockholder's notice as required by paragraph (A)(2) of this By-Law shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the 120th day prior to such special meeting and not later than the close of business on the later of the

90th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

(C) General.

(1) Only persons who are nominated in accordance with the procedures set forth in this By-Law shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this By-Law. In addition, nominations of persons by a stockholder for election to the Board of Directors and business proposed to be brought by a stockholder may not be brought before the meeting if such stockholder or any proponent persons, as applicable, takes action contrary to the representations made in the notice referred to in the second paragraph of subparagraph (2) of paragraph (A) of this By-Law applicable to such nomination or business or if such notice applicable to such nomination or business contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. Except as otherwise provided by law, the Certificate of Incorporation of the Corporation or these By-Laws, the chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that any nomination or business was not properly brought before the meeting in accordance with the provisions of these By-Laws, and if he or she should so determine, the chairman shall so declare to the meeting, and any such nomination or business not properly brought before the meeting shall not be transacted.

Notwithstanding the foregoing provisions of this Section 1.13, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 1.13, to be considered a qualified representative of the stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

(2) For purposes of this By-Law, “public announcement” shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed or furnished by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) For purposes of this By-Law, no adjournment or postponement or notice of adjournment or postponement of any meeting shall be deemed to constitute a new notice of such meeting for purposes of this Section 1.13, and in order for any

notification required to be delivered by a stockholder pursuant to this Section 1.13 to be timely, such notification must be delivered within the periods set forth above with respect to the originally scheduled meeting.

(4) Notwithstanding the foregoing provisions of this By-Law, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this By-Law; provided, however, that to the fullest extent permitted by law, any references in these By-Laws to the Exchange Act or the rules and regulations promulgated thereunder are not intended to and shall not limit any requirements applicable to nominations or proposals as to any other business to be considered pursuant to this By-Law (including paragraphs (A)(1)(c) and (B) hereof), and compliance with paragraphs (A)(1)(c) and (B) of this By-Law shall be the exclusive means for a stockholder to make nominations or submit other business (other than, as provided in the last sentence of this paragraph (C)(4), matters properly brought under and in compliance with Rule 14a-8 of the Exchange Act as amended from time to time). Nothing in these By-Laws shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act. The foregoing notice requirements of this Section 1.13 shall be deemed satisfied by a stockholder with respect to business other than a nomination if the stockholder has notified the Corporation of his, her or its intention to present a proposal at an annual meeting in compliance with applicable rules and regulations promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting.

ARTICLE II

Consent of Stockholders In Lieu of Meeting

Unless otherwise provided in the Certificate of Incorporation, any action required by law or these By-laws to be taken at any annual or special meeting of stockholders of the Corporation may be taken without a meeting, without prior notice and without a vote if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation as required by law. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not so consented in writing.

Every written consent shall bear the date of signature of each stockholder who signs the consent, and no written consent shall be effective to take the action referred to therein unless, within sixty (60) days of the earliest dated consent delivered in the manner required by this Article III and the DGCL to the Corporation, written consents signed by a sufficient number of holders of shares of stock of the Corporation to take action are delivered to the Corporation as required by law.

ARTICLE III

Board of Directors

Section 3.1. Number. The Board of Directors shall consist of not less than three nor more than fifteen directors, as fixed from time to time by resolution of either the Board of Directors or the stockholders in accordance with applicable law (each being subject to any subsequent resolutions of either of them).

Section 3.2. Election and Term of Office. Directors shall be elected at the annual meeting of the stockholders, except as provided in Sections 3.3 or 3.11 of these By-laws. Each director (whether elected at an annual meeting or to fill a vacancy or otherwise) shall hold office until his successor shall have been duly elected and qualified or until his earlier death, resignation or removal in the manner hereinafter provided.

Section 3.3. Vacancies and Additional Directorships. Unless otherwise provided in the Certificate of Incorporation of the Corporation, vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. Unless otherwise provided in the Certificate of Incorporation of the Corporation, when one or more directors shall resign from the Board, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to be effective upon the effectiveness of such resignation or resignations.

Section 3.4. Meetings.

(a) Regular Meetings. The Board of Directors may by resolution provide for the holding of regular meetings for the organization of the Corporation, for the election of officers and for the transaction of such other business as may properly come before the meeting, and may fix the times and places at which such meetings shall be held. Notice of regular meetings shall not be required to be given, provided that whenever the time or place of regular meetings shall be fixed or changed, notice of such action shall be given promptly by electronic transmission, mail, facsimile, telegram, radio, cable, telephone or personal delivery to each director who shall not have been present at the meeting at which such action was taken.

(b) Special Meetings. Special meetings of the Board of Directors may be called by or at the direction of the Chairman of the Board, if any, the Vice Chairman, if any, the President, or a majority of the directors then in office, except that when the Board of Directors consists of one director, then such director may call a special meeting. Except as otherwise required by law, notice of each special meeting shall be mailed to each director, addressed to him at his residence or usual place of business, at least five days before the day on which such meeting is to be held, or shall be sent to him at such place by electronic transmission, facsimile, telegram, radio or cable, or telephoned or delivered to him personally, not later than 24 hours before the day on which such meeting is to be held. Such notice shall state the time and place of such meeting, but need not state the purpose thereof, unless otherwise required by law, the Certificate of Incorporation of the Corporation or these By-laws.

(c) Waiver of Notice. Whenever notice is required to be given to the directors under any provision of law, the Certificate of Incorporation of the Corporation or these By-laws, a written waiver, signed by the director entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except when a director attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors need be specified in any written waiver of notice unless so required by the Certificate of Incorporation of the Corporation.

(d) Participation by Conference Call. Members of the Board of Directors may participate in any meeting of the Board by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at the meeting.

Section 3.5. Quorum; Voting. Unless the Certificate of Incorporation of the Corporation provides otherwise, at each regular meeting of the Board of Directors one-half of the total number of members of the Board of Directors but not less than two directors, and at each special meeting of the Board of Directors, one-third of the total number of members of the Board of Directors but not less than two directors shall constitute a quorum for the transaction of business, except that when the Board consists of only one director, then one director shall constitute a quorum. Unless otherwise required by the Certificate of Incorporation of the Corporation or these By-laws, a vote of the majority of the directors present at any meeting at which a quorum is present shall be the act of the Board.

Section 3.6. Adjournments. A majority of the directors present, whether or not a quorum is present, may adjourn any meeting to another time and place. Notice of any adjournment of a meeting of the Board of Directors to another time or place shall be given to the directors who were not present at the time of the adjournment and, unless such time and place are announced at such meeting, to the directors who were present.

Section 3.7. Organization. The Chairman of the Board, or if there is no Chairman or in his absence or disability, the Vice Chairman, if any, the President, or any Vice President, or in the absence of all of them, a chairman appointed by the directors present at such meeting, shall act as chairman at meetings of directors. The Secretary of the Corporation, or in his absence or disability, any Assistant Secretary of the Corporation, or in the absence of all of them, a secretary appointed by the chairman of the meeting, shall act as secretary at all meetings of the Board of Directors.

Section 3.8. Action of Board Without Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if all members of the Board of Directors consent thereto in writing (including by electronic transmission) and such writing or writings (including by electronic transmission) are filed with the minutes of proceedings of the Board of Directors.

Section 3.9. Manner of Acting. A member of the Board of Directors shall, in the performance of his duties, be fully protected in relying in good faith upon the records of the

Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of the Corporation's officers or employees, or committees of the Board of Directors, or by any other person as to matters the director reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

Section 3.10. Resignation of Directors. Any director may resign at any time upon giving written notice of such resignation to the Board of Directors, the Chairman of the Board, if any, the Vice Chairman, if any, the President, any Vice President or the Secretary. Unless otherwise specified in such notice, such resignation shall take effect upon receipt thereof by the Board of Directors or any such officer, and acceptance of such resignation shall not be necessary to make it effective.

Section 3.11. Removal of Directors. At any meeting of the stockholders duly called as provided in these By-laws, any director or directors may be removed from office, either with or without cause, as provided by law. At such meeting, a successor or successors may be elected by a plurality of the votes cast, or if any such vacancy is not so filled, it may be filled by the directors as provided in Section 3.3 of these By-laws.

Section 3.12. Compensation of Directors. Directors may receive such reasonable compensation for their services as directors, whether in the form of salary or a fixed fee for attendance at meetings, with expenses, if any, as the Board of Directors may from time to time determine. Nothing contained herein shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV

Committees of the Board

Section 4.1. Designation and Powers. The Board of Directors may, by a resolution passed by a majority of the entire Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. Any such committee, to the extent provided in such resolution and permitted by law, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; provided, however, that no such committee shall have the power or authority to (i) amend the Certificate of Incorporation of the Corporation, except as permitted by law, (ii) adopt an agreement of merger or consolidation, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property or assets, (iv) recommend to the stockholders a dissolution of the Corporation, or a revocation of a dissolution, or (v) amend the By-laws of the Corporation. Any such committee, to the extent provided in such resolution, shall have the power and authority to (i) declare a dividend, (ii) authorize the issuance of stock, or (iii) adopt a certificate of ownership and merger as permitted by law.

Section 4.2. Term of Office. The term of office of the members of each committee shall be as fixed from time to time by the Board of Directors, subject to these

By-laws; provided, however, that any committee member who ceases to be a member of the Board of Directors shall ipso facto cease to be a member of any committee thereof.

Section 4.3. Alternate Members and Vacancies. The Board of Directors may designate one or more directors as alternate members of any committee who, in the order specified by the Board of Directors, may replace any absent or disqualified member at any meeting of the committee. If at a meeting of any committee one or more of the members thereof should be absent or disqualified, and if either the Board of Directors has not so designated any alternate member or members or the number of absent or disqualified members exceeds the number of alternate members who are present at such meeting, then the member or members of such committee (including alternates) present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another director to act at the meeting in the place of any such absent or disqualified member. If any vacancy shall occur in any committee by reason of death, resignation, disqualification, removal or otherwise, the remaining member or members of such committee, so long as a quorum is present, may continue to act until such vacancy is filled by the Board of Directors.

Section 4.4. Meetings. Meetings of a committee may be called by the Chairman of the Board or the President of the Corporation or by any member of the committee on not less than one day's notice, which notice may be written (including electronic transmission) or oral. Any member of a committee may waive notice of any meeting and no notice of any meeting need be given to any member thereof who attends the meeting. The notice of a meeting need not state the business proposed to be transaction at the meeting. Each committee shall fix its own rules of procedure, and shall meet where and as and upon such notice as provided by such rules or by resolution of the Board of Directors so long as the same are not inconsistent with these By-Laws. Each committee shall keep regular minutes of its proceedings and all actions by each committee shall be reported to the Board of Directors at its next regular meeting succeeding any such action. Members of any committee designated by the Board of Directors may participate in a meeting of the committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at the meeting.

Section 4.5. Quorum; Voting. At each meeting of any committee the presence of a majority of the total number of its members then in office shall constitute a quorum for the transaction of business; except that when a committee consists of one member, then one member shall constitute a quorum. A vote of the majority of committee members present at any meeting of a committee at which a quorum is present shall be the act of such committee.

Section 4.6. Adjournments. A majority of the members of a committee present, whether or not a quorum is present, may adjourn any meeting of such committee to another place and time.

Section 4.7. Action of Committee Without Meeting. Any action required or permitted to be taken at any meeting of any committee designated by the Board of Directors may be taken without a meeting if all members of such committee consent thereto in writing (including electronic transmission) and such writing or writings (including electronic transmission) are filed with the minutes of the proceedings of such committee.

Section 4.8. Manner of Acting. A member of any committee designated by the Board of Directors shall, in the performance of his duties, be fully protected in relying in good faith upon the records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of the Corporation's officers or employees, or other committees of the Board of Directors, or by any other person as to matters the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

Section 4.9. Resignation of Committee Members. Any member of a committee may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board, if any, the Vice Chairman, if any, the President, any Vice President or the Secretary. Unless otherwise specified in such notice, such resignation shall take effect upon receipt thereof by the Board of Directors or any such officer, and acceptance of such resignation shall not be necessary to make it effective.

Section 4.10. Removal of Committee Members. Any member of any committee may be removed with or without cause at any time by the Board of Directors.

Section 4.11. Compensation of Committee Members. Committee members may receive such reasonable compensation for their services as committee members, whether in the form of salary or a fixed fee for attendance at meetings, with expenses, if any, as the Board of Directors may from time to time determine. Nothing contained herein shall be construed to preclude any committee member from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IVA

Executive and Compensation Committees of the Board

Section 4.1A. Executive Committee. The Board of Directors may, by a resolution passed by a majority of the entire Board of Directors, designate an Executive Committee (and may discontinue the same at any time) to consist of two or more of the directors of the Corporation. The members shall be appointed by the Board and shall hold office during the pleasure of the Board. The Executive Committee shall have and may exercise all the powers of the Board of Directors (when the Board is not in session) in the management of the business and affairs of the Corporation (and may authorize the seal of the Corporation to be affixed to all papers which may require it), except that the Executive Committee shall have no power (a) to elect directors; (b) to alter, amend or repeal these By-Laws or any resolution or resolutions of the directors designating an Executive Committee; or (c) to appoint any member of the Executive Committee. Regular meetings of the Executive Committee shall be held at such time and place as the Committee may determine, and special meetings may be called at any time by any officer or any member of the Committee. Notice of each meeting of the Executive Committee shall be given (or waived) in the same manner as notice for a director's meeting, and a majority of the members of the Executive Committee shall constitute a quorum for the transaction of business.

Section 4.2A. Compensation Committee. The Board of Directors may, by a resolution passed by a majority of the entire Board of Directors, designate a Compensation

Committee (and may discontinue the same at any time) to consist of two or more of the directors of the Corporation. The members shall be appointed by the Board and shall hold office during the pleasure of the Board. The Compensation Committee shall have, and may exercise, any and all of the following powers of the Board of Directors: (a) to determine compensation to be payable to officers and key employees of subsidiaries of the Corporation, and the terms and conditions attendant thereto; (b) to determine the terms and conditions of, and to authorize employment contracts with officers and key employees of the Corporation, and officers and key employees of subsidiaries of the Corporation; (c) to determine the bonuses and fringe benefits, if any, that shall be granted to officers and key employees of the Corporation, and to determine the terms and conditions of any loans to be granted.

ARTICLE V

Officers

Section 5.1. Officers. The officers of the Corporation shall be a Chairman of the Board (if elected by the Board of Directors), a Vice Chairman of the Board (if elected by the Board of Directors), a President, one or more Vice Presidents (if elected by the Board of Directors), a Secretary, a Treasurer, and such other officers as may be appointed in accordance with the provisions of Section 5.3 of these By-laws. The Chairman of the Board of Directors and the President shall be chosen from among the Board of Directors of the Corporation, but the other officers need not be members of such Board of the Corporation.

Section 5.2. Election, Term of Office and Qualifications. Each officer (except such officers as may be appointed in accordance with the provisions of Section 5.3 of these By-laws) shall be elected or appointed by a majority of the Board of Directors present at any meeting at which such election is held. Unless otherwise provided in the resolution of election, each officer (whether elected at the first meeting of the Board of Directors after the annual meeting of stockholders or to fill a vacancy or otherwise) shall hold his office until the first meeting of the Board of Directors after the next annual meeting of stockholders and until his successor shall have been elected and qualified, or until his earlier death, resignation or removal.

Section 5.3. Subordinate Officers and Agents. The Board of Directors may from time to time appoint other officers or agents (including, without limitation, one or more Assistant Vice Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers), to hold office for such periods, have such authority and perform such duties as are provided in these By-laws or as may be provided in the resolutions appointing them. The Board of Directors may delegate to any officer or agent the power to appoint any such subordinate officers or agents and to prescribe their respective terms of office, authority and duties.

Section 5.4. The Chairman of the Board. The Chairman of the Board shall be elected by the Board of Directors. He shall preside at all meetings of the Board of Directors and stockholders and shall see that all orders and resolutions of the Board of Directors are carried into effect. Subject to the direction of the Board of Directors, he shall have general charge of the business, affairs and property of the Corporation and general supervision over its officers and agents. He may sign (which signature may be a facsimile signature), with any other officer thereunto duly authorized, certificates representing stock of the Corporation, the issuance of

which shall have been duly authorized, and may sign (which signature may be a facsimile signature) and execute, in the name and on behalf of the Corporation, deeds, mortgages, bonds, contracts, agreements and other instruments and documents duly authorized by the Board of Directors, except where the signing and execution thereof shall be expressly delegated by the Board of Directors to another officer or agent. From time to time the Chairman shall report to the Board of Directors all matters within his knowledge which the interests of the Corporation may require to be brought to the attention of the directors. He shall also have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors or these By-laws.

Section 5.5. The Vice Chairman. At the request of the Chairman of the Board, if there is one, or in his absence or disability, the Vice Chairman, if there is one, shall perform all the duties of the Chairman of the Board and, when so acting, shall have all the powers of and be subject to all the restrictions on the Chairman of the Board. The Vice Chairman may sign (which signature may be a facsimile signature), with any other officer thereunto duly authorized, certificates representing stock of the Corporation, the issuance of which shall have been duly authorized, and may sign (which signature may be a facsimile signature) and execute, in the name and on behalf of the Corporation, deeds, mortgages, bonds, contracts, agreements and other instruments and documents duly authorized by the Board of Directors, except where the signing and execution thereof shall be expressly delegated by the Board of Directors to another officer or agent. The Vice Chairman shall also have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board or these By-laws.

Section 5.6. The President. If there is no Chairman of the Board or Vice Chairman, or at the request of the Chairman of the Board or the Vice Chairman, or, in the absence or disability of the Chairman of the Board and the Vice Chairman, the President shall be the chief executive officer of the Corporation. Subject to the authority and direction of the Chairman of the Board and the Vice Chairman, if any, and the Board of Directors, the President shall have all the powers of and be subject to all the restrictions on the Chairman of the Board, and shall have charge of the day to day supervision of the business, affairs and property of the Corporation. The President may sign (which signature may be a facsimile signature), with any other officer thereunto duly authorized, certificates representing stock of the Corporation, the issuance of which shall have been duly authorized, and may sign (which signature may be a facsimile signature) and execute, in the name and on behalf of the Corporation, deeds, mortgages, bonds, contracts, agreements and other instruments and documents duly authorized by the Board of Directors, except where the signing and execution thereof shall be expressly delegated by the Board of Directors to another officer or agent. The President shall also have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman or these By-laws.

Section 5.7. Vice Presidents. At the request of the President, or in his absence or disability, the Vice President designated by the Board of Directors shall perform all the duties of the President and, when so acting, shall have all the powers of and be subject to all the restrictions on the President. Any Vice President may also sign (which signature may be a facsimile signature), with any other officer thereunto duly authorized, certificates representing stock of the Corporation, the issuance of which shall have been duly authorized, and may sign

(which signature may be a facsimile signature) and execute, in the name and on behalf of the Corporation, deeds, mortgages, bonds, contracts, agreements and other instruments and documents duly authorized by the Board of Directors, except where the signing and execution thereof shall be expressly delegated by the Board of Directors to another officer or agent. Each Vice President shall have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman, the President or these By-laws.

Section 5.8. The Secretary. The Secretary shall

(a) record all the proceedings of meetings of the stockholders, the Board of Directors, and any committees thereof in a book or books to be kept for that purpose;

(b) cause all notices to be duly given in accordance with the provisions of these By-laws and as required by law;

(c) whenever any committee shall be appointed pursuant to a resolution of the Board of Directors, furnish the chairman of such committee with a copy of such resolution;

(d) be custodian of the records and the seal of the Corporation, and cause such seal to be affixed to (or a facsimile to be reproduced on) all certificates representing stock of the Corporation prior to the issuance thereof and all instruments the execution of which in the name and on behalf of the Corporation and under its seal shall have been duly authorized;

(e) see that the lists, books, reports, statements, certificates and other documents and records required by law are properly kept and filed;

(f) have charge of the stock and transfer books of the Corporation, and exhibit such books at all reasonable times to such persons as are entitled by law to have access thereto;

(g) sign (which signature may be a facsimile signature), with any other officer thereunto duly authorized, certificates representing stock of the Corporation, the issuance of which shall have been duly authorized, and sign (which signature may be a facsimile signature) and execute, in the name and on behalf of the Corporation, instruments and documents duly authorized by the Board of Directors, except where the signing and execution thereof shall be expressly delegated by the Board of Directors to another officer or agent; and

(h) in general, perform all duties incident to the office of Secretary and have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman, the President or these By-laws.

Section 5.9. Assistant Secretaries. At the request of the Secretary, or in his absence or disability, the Assistant Secretary designated by the Secretary, the Board of Directors, the Chairman of the Board, the Vice Chairman, or the President, shall perform all the duties of the Secretary, and, when so acting, shall have all the powers of and be subject to all the restrictions on the Secretary. Each Assistant Secretary shall have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman, the President, the Secretary or these By-laws.

Section 5.10. The Treasurer. The Treasurer shall

- (a) have charge of and supervision over and be responsible for the funds, securities, receipts and disbursements of the Corporation;
- (b) cause the moneys and other valuable effects of the Corporation to be deposited in the name and to the credit of the Corporation in such banks or trust companies, or with such bankers or other depositaries, as shall be selected in accordance with Section 7.3 of these By-laws, or to be otherwise dealt with in such manner as the Board of Directors may direct from time to time;
- (c) cause the funds of the Corporation to be disbursed by checks or drafts upon the authorized depositaries of the Corporation, and cause to be taken and preserved proper vouchers for all moneys disbursed;
- (d) render to the Board of Directors, the Chairman of the Board, if any, the Vice Chairman, if any, and/or the President, whenever requested, a statement of the financial condition of the Corporation and of all of his transactions as Treasurer;
- (e) cause to be kept at the Corporation's principal office correct books of account of all of the Corporation's business and transactions and such duplicate books of account as he shall determine and, upon application, cause such books or duplicates thereof to be exhibited to any director;
- (f) be empowered, from time to time, to require from the officers or agents of the Corporation reports or statements giving such information as he may desire or deem appropriate with respect to any or all financial transactions of the Corporation;
- (g) sign (which signature may be a facsimile signature), with any other officer thereunto duly authorized, certificates representing stock of the Corporation, the issuance of which shall have been duly authorized, and sign (which signature may be a facsimile signature) and execute, in the name and on behalf of the Corporation, instruments and documents duly authorized by the Board of Directors, except where the signing and execution thereof shall be expressly delegated by the Board of Directors to another officer or agent; and
- (h) in general, perform all duties incident to the office of Treasurer and have such other powers and perform such other duties as may from time to time

be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman, the President or these By-laws.

Section 5.11. Assistant Treasurer. At the request of the Treasurer, or in his absence or disability, the Assistant Treasurer designated by the Treasurer, the Board of Directors, the Chairman of the Board, if any, the Vice Chairman, if any, or the President shall perform all the duties of the Treasurer, and, when so acting, shall have all the powers of and be subject to all the restrictions on the Treasurer. Each Assistant Treasurer shall have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman, the President, the Treasurer or these By-laws.

Section 5.12. Resignations. Any officer may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board, the Vice Chairman, the President, any Vice President or the Secretary. Unless otherwise specified in such written notice, such resignation shall take effect upon receipt thereof by the Board of Directors or any such officer, and the acceptance of such resignation shall not be necessary for it to be effective.

Section 5.13. Removal. Any officer specifically designated in Section 5.1 of these By-laws may be removed with or without cause at any meeting of the Board of Directors by the affirmative vote of a majority of the directors then in office. Any officer or agent appointed pursuant to the provisions of Section 5.3 of these By-laws may be removed with or without cause at any meeting of the Board of Directors by the affirmative vote of a majority of the directors present at such meeting or at any time by any superior officer or agent upon whom such power of removal shall have been conferred by the Board of Directors.

Section 5.14. Vacancies. Any vacancy in any office (whether by reason of death, resignation, removal, disqualification or otherwise) shall be filled for the unexpired portion of the term in the manner prescribed by these By-laws for regular elections or appointments to such office.

Section 5.15. Compensation. The salaries of the officers of the Corporation shall be fixed from time to time by the Board of Directors, except that the Board of Directors may delegate to any person the power to fix the salaries or other compensation of any officers or agents appointed pursuant to the provisions of Section 5.3 of these By-laws. No officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the Corporation.

Section 5.16. Bonding. The Corporation may secure the fidelity of any or all of its officers or agents by bond or otherwise.

ARTICLE VI

Indemnification

The Corporation shall indemnify, in the manner and to the fullest extent permitted by applicable law, any person (or the estate of any person) who was or is a party to, or is threatened to be made a party to, any threatened, pending or completed action, suit or

proceeding, whether or not by or in the right of the Corporation, and whether civil, criminal, administrative, investigative or otherwise, by reason of the fact that such person is or was a director, officer, employee, fiduciary or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, trustee, fiduciary, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding. To the extent and in the manner provided by applicable law, any such expenses may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding. Unless otherwise permitted by applicable law, the indemnification provided for herein shall be made only as authorized in the specific case upon a determination, made in the manner provided by applicable law, that indemnification of such director, officer, employee or agent is proper in the circumstances. The Corporation may, to the fullest extent permitted by applicable law, purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability which may be asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under applicable law. The indemnification and advancement of expenses provided for herein shall not be deemed to limit the right of the Corporation to indemnify or make advances to any other person for any expenses (including attorneys' fees), judgments, fines or other amounts to the fullest extent permitted by applicable law, nor shall they be deemed exclusive of any other rights to which any person seeking indemnification or advancement of expenses may be entitled under any agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

ARTICLE VII

Execution of Instruments and Deposit of Corporate Funds

Section 7.1. Execution of Instruments Generally. Subject to the approval of the Board of Directors, the Chairman of the Board, the Vice Chairman, the President, any Vice President, the Secretary or the Treasurer may enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation. The Board of Directors may authorize any officer or officers or agent or agents to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation, and such authorization may be general or confined to specific instances.

Section 7.2. Borrowing. No loans or advances shall be obtained or contracted for, by or on behalf of the Corporation, and no negotiable paper shall be issued in the name of the Corporation, unless and except as authorized by the Board of Directors. Such authorization may be general or confined to specific instances. Any officer or agent of the Corporation thereunto so authorized may obtain loans and advances for the Corporation, and in connection with such loans and advances may make, execute and deliver promissory notes, bonds or other evidences of indebtedness of the Corporation. Any officer or agent of the Corporation so

authorized may pledge, hypothecate or transfer as security for the payment of any and all loans, advances, indebtedness and liabilities of the Corporation any and all stocks, bonds, other securities and other personal property at any time held by the Corporation, and to that end may endorse, assign and deliver the same and do every act and thing necessary or proper in connection therewith.

Section 7.3. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to its credit in such banks or trust companies or with such bankers or other depositaries as the Board of Directors may select, or as may be selected by any officer or officers or agent or agents authorized to do so by the Board of Directors. Endorsements for deposit to the credit of the Corporation in any of its duly authorized depositaries shall be made in such manner as the Board of Directors may from time to time determine.

Section 7.4. Checks, Drafts, Etc. All checks, drafts or other orders for the payment of money, and all notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer or officers or agent or agents of the Corporation, and in such manner, as from time to time shall be determined by the Board of Directors.

Section 7.5. Proxies. Proxies to vote with respect to shares of stock of other corporations owned by or standing in the name of the Corporation may be executed and delivered from time to time on behalf of the Corporation by the Chairman of the Board, the Vice Chairman, the President, or any Vice President, or by any other person or persons thereunto authorized by the Board of Directors.

ARTICLE VIII

Stock

Section 8.1. Certificates of Stock. Shares of capital stock of the Corporation may be certificated or uncertificated, as provided under the Delaware General Corporation Law. Each stockholder, upon written request to the transfer agent or registrar of the Corporation, shall be entitled to a certificate of the capital stock of the Corporation in such form as may from time to time be prescribed by the Board of Directors. Each certificate shall bear the Corporation seal and shall be signed by the Chairman of the Board, the Vice Chairman, the President or any Vice President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary. The Corporation seal and the signatures by Corporation officers may be facsimiles if the certificate is manually countersigned by an authorized person on behalf of a transfer agent or registrar other than the Corporation or its employee. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed on the certificate shall have ceased to be an officer, transfer agent or registrar before the certificate is issued, it may be issued by the Corporation with the same effect as if the officer, transfer agent or registrar were the officer, transfer agent or registrar at the time of its issue. Every certificate for shares of stock which are subject to any restriction on transfer and every certificate issued when the Corporation is authorized to issue more than one class or series of stock shall contain a legend with respect thereto as is required by law. The Corporation shall be permitted to issue fractional shares.

Section 8.2. Regulations. Upon the surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, the Corporation shall issue a new certificate or evidence of the issuance of uncertificated shares to the stockholder entitled thereto, cancel the old certificate and record the transaction upon the Corporation's books. Upon the surrender of any certificate for transfer of stock, the certificate shall at once be conspicuously marked on its face "Cancelled" and filed with the permanent stock records of the Corporation. Upon the receipt of proper transfer instructions from the registered owner of uncertificated shares, the uncertificated shares shall be cancelled and new equivalent uncertificated shares or certificated shares shall be issued to the stockholder entitled thereto and the transaction shall be recorded upon the Corporation's books. If the Corporation has a transfer agent or registrar acting on its behalf, the signature of any officer or representative thereof may be in a facsimile. The Board of Directors may make such rules and regulations consistent with any governing statute as it may deem expedient concerning the issue, transfer and registration of stock (whether certificated or uncertificated) and concerning stock issued, transferred or registered in lieu or replacement of any lost, stolen, destroyed or mutilated certificates of stock.

Section 8.3. Transfer Agent and Registrar. The Board of Directors may appoint a transfer agent or transfer agents and a registrar or registrars of transfers for any or all classes of the capital stock of the Corporation, and may require stock certificates of any or all classes to bear the signature of either or both.

Section 8.4. Registered Holders. The Corporation shall be entitled to treat the person in whose name any share of stock or any warrant, right or option is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share, warrant, right or option on the part of any other person, whether or not the Corporation shall have notice thereof, save as may be expressly provided otherwise by the laws of the State of Delaware. No transfer of stock shall be valid as against the Corporation, its stockholders and creditors for any purpose until it shall have been entered in the stock book by an entry showing from and to whom transferred, save as expressly provided otherwise by the laws of the State of Delaware.

ARTICLE IX

Corporate Seal

The corporate seal shall be circular in form, shall bear the name of the Corporation and words and figures denoting its organization under the laws of the State of Delaware and the year thereof, and otherwise shall be in such form as shall be approved from time to time by the Board of Directors.

ARTICLE X

Fiscal Year

The fiscal year of the Corporation shall begin on the first day of October in each year or such other day as the Board of Directors may determine by resolution.

ARTICLE XI

Amendments

In addition to the provisions, if any, in the Certificate of Incorporation of the Corporation relating to the amendment of the Corporation's By-laws, the By-laws of the Corporation may be amended or repealed, and new By-laws may be made and adopted, by a majority of the votes cast at any annual or special stockholders' meeting by holders of outstanding shares of stock of the Corporation entitled to vote thereon.

ARTICLE XII

Forum Selection and Certain Litigation Costs

Section 12.1. Forum for Certain Actions.

(a) Unless a majority of the Board of Directors, acting on behalf of the Corporation, consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another state court located within the State of Delaware or, if no court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim against the Corporation or any of its directors, officers or other employees arising pursuant to any provision of the Delaware General Corporation Law, the Certificate of Incorporation or these Bylaws (in each case, as may be amended from time to time) or (iv) any action asserting a claim against the Corporation or any of its directors, officers or other employees governed by the internal affairs doctrine of the State of Delaware, in all cases subject to the court's having personal jurisdiction over all indispensable parties named as defendants.

(b) If any action the subject matter of which is within the scope of the immediately preceding clause (a) is filed in a court other than a court located within the State of Delaware (a "Foreign Action") in the name of any stockholder, such stockholder shall be deemed to have consented to (i) the personal jurisdiction of the state and federal courts located within the State of Delaware in connection with any action brought in any such court to enforce the immediately preceding clause (a) (an "Enforcement Action") and (ii) having service of process made upon such stockholder in any such Enforcement Action by service upon such stockholder's counsel in the Foreign Action as agent for such stockholder.

Section 12.2. Litigation Costs.

(a) To the fullest extent permitted by law, in the event that (i) any current or prior stockholder or anyone on their behalf ("Claiming Party") initiates or asserts any claim or counterclaim ("Claim") or joins, offers substantial assistance to, or has a direct financial interest in any Claim against the Corporation and/or any of its current or former directors, officers,

employees or any of their respective affiliates (together, the “Corporation Parties”), and (ii) the Claiming Party (or the third party that received substantial assistance from the Claiming Party or in whose Claim the Claiming Party had a direct financial interest) does not obtain a judgment on the merits that substantially achieves, in substance and amount, the full remedy sought, then each Claiming Party shall be obligated jointly and severally to reimburse the Corporation Parties the greatest amount permitted by law of all fees, costs and expenses of every kind and description (including but not limited to, all reasonable attorney’s fees and other litigation expenses) (collectively, “Litigation Costs”) that the Corporation Parties may incur in connection with such Claim.

(b) To the fullest extent permitted by law, in the event that any Claiming Party initiates or asserts any Claim or joins, offers substantial assistance to, or has a direct financial interest in any Claim against any Corporation Parties, then, regardless whether the Claiming Party is successful on its Claim in whole or in part, (i) the Claiming Party shall bear its own Litigation Costs, and (ii) the Claiming Party and the Claiming Party’s attorneys shall not be entitled to recover any Litigation Costs or, in a derivative or class action, to receive any fees or expenses as the result of the creation of any common fund, or from a corporate benefit purportedly conferred upon the Corporation.

(c) The foregoing provisions of the immediately preceding clauses (a) and (b) shall not apply with respect to any Claim asserted or proceeding initiated by any person for which such person is entitled to (i) indemnification under Article VII of these By-laws or any agreement with the Corporation or (ii) bring suit under Section Article VII of these By-laws.

ARTICLE XIII

Severability

If any provision (or any part thereof) of these By-laws shall be held to be invalid, illegal or unenforceable as applied to any circumstance for any reason whatsoever: (i) the validity, legality and enforceability of such provisions in any other circumstance and of the remaining provisions of these By-laws (including, without limitation, each portion of any section of these By-laws containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and (ii) to the fullest extent possible, the provisions of these By-laws (including, without limitation, each such portion containing any such provision held to be invalid, illegal or unenforceable) shall be construed for the benefit of the Corporation to the fullest extent permitted by law so as to (a) give effect to the intent manifested by the provision held invalid, illegal or unenforceable, and (b) permit the Corporation to protect its directors, officers, employees and agents from personal liability in respect of their good faith service. Reference herein to laws, regulations or agencies shall be deemed to include all amendments thereof, substitutions therefor and successors thereto, as the case may be.

List of Subsidiaries

The subsidiaries of Barnwell Industries, Inc., at September 30, 2014 were:

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation or Organization</u>
Barnwell of Canada, Limited	Delaware
Water Resources International, Inc.	Delaware
Barnwell Hawaiian Properties, Inc.	Delaware
Barnwell Kona Corporation	Hawaii
Kaupulehu Developments	Hawaii
Cambridge Hawaii Limited Partnership	Hawaii
Barnwell Management Co., Inc.	Delaware
Barnwell Shallow Oil, Inc.	Delaware
Barnwell Geothermal Corporation	Delaware
Victoria Properties, Inc.	Delaware
Barnwell Financial Corporation	Delaware
Barnwell Alakea Properties, Inc.	Hawaii
Kaupulehu Investors, LLC	Hawaii
Mauka 3K, LLC	Hawaii
Kaupulehu Mauka Investors, LLC	Hawaii
Kaupulehu 2007, LLLP	Hawaii
Barnwell Makai, Inc.	Hawaii
KD Kona 2013 LLLP	Hawaii
Barnwell of Israel, Ltd.	Israel
Barnwell Oil & Gas, Ltd.	Israel
Bill Robbins Drilling, Ltd.	Alberta, Canada
Gypsy Petroleum Ltd.	Alberta, Canada
Dartmouth Petroleum, Ltd.	Alberta, Canada
J.H. Wilson Associates, Ltd.	Alberta, Canada

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Barnwell Industries, Inc.:

We consent to the incorporation by reference in the registration statement No. 333-153070 on Form S-8 of Barnwell Industries, Inc. of our report dated December 18, 2014, with respect to the consolidated balance sheets of Barnwell Industries, Inc. and subsidiaries as of September 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, cash flows, and equity for the years then ended, which report appears in the September 30, 2014 annual report on Form 10-K of Barnwell Industries, Inc.

/s/ KPMG LLP

Honolulu, Hawaii
December 18, 2014

Consent of InSite Petroleum Consultants Ltd.

We hereby consent to the use of our name in the Annual Report on Form 10-K of Barnwell Industries, Inc. and to all references to us, our report concerning reserves and the data in that report appearing in the 10-K.

Date: December 18, 2014

InSite Petroleum Consultants Ltd.

By: /s/ Larry K. Lindstrom
Larry K. Lindstrom, P. Eng.
Managing Director

Certifications

I, Morton H. Kinzler, certify that:

1. I have reviewed this annual report on Form 10-K of Barnwell Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 18, 2014

/s/ Morton H. Kinzler
Morton H. Kinzler
Chief Executive Officer

Certifications

I, Russell M. Gifford, certify that:

1. I have reviewed this annual report on Form 10-K of Barnwell Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 18, 2014

/s/ Russell M. Gifford
Russell M. Gifford
Chief Financial Officer

Barnwell Industries, Inc.

**Certification Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) each of the undersigned officers of Barnwell Industries, Inc. (the “Company”), does hereby certify, to such officer’s knowledge that:

The Annual Report on Form 10-K for the year ended September 30, 2014 of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the consolidated financial condition as of September 30, 2014 and consolidated results of operations for the year ended September 30, 2014 of the Company and its subsidiaries.

Dated: December 18, 2014

/s/ Morton H. Kinzler
Name: Morton H. Kinzler
Title: Chief Executive Officer

Dated: December 18, 2014

/s/ Russell M. Gifford
Name: Russell M. Gifford
Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-K or as a separate disclosure document.

A signed original of the written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.



Suite 2000, 801-6th Ave SW
Calgary, Alberta T2P 3W2
Web insitepc.com

October 21, 2014

Barnwell of Canada, Limited
Suite 2410, 500 – 4th Avenue SW
Calgary, Alberta
T2P 2V6

**Re: Evaluation of the Oil and Gas Properties of
Barnwell of Canada, Limited**

Dear Sirs:

As requested, an evaluation has been made of all of the crude oil and natural gas assets of Barnwell of Canada, Limited, hereinafter referred to as the “Company.” The properties evaluated are located in the Canadian provinces of Alberta, British Columbia and Saskatchewan. The effective date of the reserve estimates presented in this report is September 30, 2014. The purpose of this evaluation and report is to fulfill Securities and Exchange Commission (SEC) reporting requirements.

All Company assets were evaluated in full detail. Individual property evaluations were prepared in the context of belonging to a larger portfolio of properties. Due to the principal of aggregation of reserves, the total portfolio reserves estimate carries a higher degree of confidence than the estimates for the individual properties.

This evaluation is based in part on prices, currency exchange rates and estimates which, in future, may differ materially from the forecasts utilized herein. In addition, changes in government policy and regulation may result in higher (or lower) royalties and taxes and the change may be material; therefore, the present values of revenues documented in this report do not necessarily represent the fair market value of the reserves evaluated. The reserve estimates presented in this report are considered reasonable as of the effective date of the report given the quality and quantity of data available; however, they should be accepted with the understanding that reservoir performance subsequent to the date of these estimates may necessitate revision, which may be material.

Barnwell of Canada, Limited
Summary of Net Reserves – Constant Prices and Costs

	Net Remaining Reserves		
	Crude Oil (Stb)	NGL + Cond. (Stb)	Market Gas (Mcf)
Proved Producing	340,700	319,200	7,646,300
Proved Non-Producing	<u>47,000</u>	<u>17,100</u>	<u>1,819,000</u>
Total Proved	<u>387,700</u>	<u>336,400</u>	<u>9,465,300</u>

Constant prices were prepared based on posted prices of crude oil and natural gas using a 12 month unweighted arithmetic average closing price of each commodity on the 1st day of each month from October 1, 2013 through September 1, 2014 during the fiscal year. The natural gas liquids prices were prepared based on the Company's current contract using Keyera pricing. This report has been prepared using constant prices and costs and conforms to our understanding of the SEC's guidelines and applicable financial accounting rules.

All prices used in the evaluation have been adjusted from posted prices for applicable quality, heating value and transportation considerations. The weighted average prices, after applicable adjustments, over the life of the properties used in the evaluation were US\$ 82.57 barrel of oil, US\$ 3.90 per Mcf of gas, US\$ 94.66 per barrel of condensate, US\$ 9.72 per barrel of ethane, US\$ 31.88 per barrel of propane, and US\$ 51.84 per barrel of butane.

During the course of the evaluation, the Company provided InSite Petroleum Consultants Ltd. ("InSite") personnel with basic information including land data, well information, geological information, reservoir studies, estimates of on-stream dates, contract details, operating cost data, capital budget forecasts, operating statements and other financial data and future operating plans. Additional engineering, geological or economic data used in the preparation of this report were obtained from public records, other operators and from InSite non-confidential files. InSite encountered no indications that the data was incomplete or inaccurate. Should evidence become available in the future suggesting that the data was incomplete or inaccurate, InSite reserves the right to revise the estimates based on new data. Similarly, the performance of the producing entities subsequent to the effective date of this report may necessitate upward or downward revisions to the reserve and production estimates.

In conducting our reserve analysis, proved reserve volumes were determined by volumetric, material balance, and production decline curve methods. The volumetric reserves were determined by reviewing all well logs, core, and geological data. Recovery factors were assigned after analyzing the performance of similar wells in the area. Historical well production was reviewed to determine reserves calculated by production decline curve analysis where sufficient historical data was available. The order of preference in choosing the methodology to be used was firstly production decline curve analysis or material balance where sufficient data was available for such analysis with volumetric calculations used where there was a lack of historical data.

The production and revenue forecasts for each property and the corporate cash flow summaries have not been adjusted for risk. Well abandonment costs (excluding site reclamation) were included in the economic runs. Salvage value for existing equipment as well as costs to abandon suspended wells, producing wells with no reserves assigned, and facilities have not been included in this evaluation.

The oil and gas reserves calculations and income projections upon which this report is based, were determined in accordance with generally accepted evaluation practices. InSite used all assumptions, data, methods and procedures it considered appropriate, under the circumstances, to prepare this report.

The extent and character of ownership and all factual data supplied by the Company were accepted as presented. A field inspection was not considered necessary by InSite.

In this report, gross (or Company share) reserves are defined as the total remaining recoverable reserves owned by the Company before deduction of any royalties. Net reserves are defined as those accruing to the Company after all interests owned by others including Crown and Freehold royalties have been deducted. The reserve category definitions utilized in this report are in accordance with SEC standards and Regulation S-X.

Yours very truly,

InSite Petroleum Consultants Ltd.

Original signed by L.K. Lindstrom, P. Eng.
(2014-10-21)

L.K. Lindstrom, P. Eng.
Managing Director

Original signed by J. Ed Hasiuk, P. Geol.
(2014-10-21)

J. Ed Hasiuk, P. Geol.
Senior Geologist

BOARD OF DIRECTORS

Martin Anderson^{1, 2, 3} – Investor

Murray C. Gardner, Ph.D.^{1, 2, 3, 4A} – Oil and Gas Consultant, Investor

Diane G. Kranz^{1, 2, 3A} – Senior Partner, Kranz & Co., LLP (Accountants)

Kevin K. Takata^{3, 4} – First Deputy Prosecutor, County of Kauai

Ahron H. Haspel^{1, 2A, 3, 4} – Investor, Attorney in Private Practice

Robert J. Inglima, Jr.^{3, 4} – Investor, Attorney in Private Practice

James S. Barnwell, III^{2, 3, 4} – Investor

Russell M. Gifford⁴ – Executive Vice President, Chief Financial Officer, Treasurer and Secretary

Alexander C. Kinzler^{1, 4} – President, Chief Operating Officer and General Counsel

Morton H. Kinzler^{1A} – Chairman of the Board and Chief Executive Officer

¹ Member of the Executive Committee

² Member of the Compensation Committee

³ Member of the Audit Committee

⁴ Member of the Reserves Committee

^{1A} Chairperson of the Executive Committee

^{2A} Chairperson of the Compensation Committee

^{3A} Chairperson of the Audit Committee

^{4A} Chairperson of the Reserves Committee

OFFICERS

Morton H. Kinzler

Chairman of the Board, Chief Executive Officer

Alexander C. Kinzler

President, Chief Operating Officer, General Counsel

Russell M. Gifford

Executive Vice President, Chief Financial Officer, Treasurer, Secretary

Mark A. Murashige

Vice President, Controller, Assistant Secretary

Margaret A. Mangan

Assistant Vice President, Assistant Treasurer, Assistant Secretary

Jessica A. Golden

Assistant Vice President, Assistant Controller

Sheryl A. L. Villanueva

Assistant Vice President, Assistant Controller

Heidi M. Uratsuka

Assistant Vice President

Denise L. Miyasato

Assistant Secretary

Corporate Information

Corporate Headquarters

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Honolulu, Hawaii 96813
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Canadian Office

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Calgary, Alberta, Canada T2P 2V6
Phone (403) 531-1560
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Big Island Office

Water Resources International, Inc.
P.O. Box 44520, Kamuela Industrial Park
Kamuela, Hawaii 96743
Phone (808) 882-7207
Fax (808) 882-7655

Transfer Agent

Broadridge
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Jersey City, NJ 07306
Phone (201) 714-3800
Website www.broadridge.com

Ticker Symbol: BRN
Website: www.brninc.com

Stock Exchange Listing
NYSE MKT

Annual Meeting

Barnwell's Annual Meeting of Stockholders will be held on March 2, 2015 at 9:30 a.m., Central Standard Time, in Shreveport, Louisiana.

Market Prices of Common Stock

The following tables reflect the quarterly high and low sales prices, on the NYSE MKT, for the Company's common stock during the periods indicated:

Quarter ended	High	Low
December 31, 2012	\$3.50	\$3.05
March 31, 2013	\$3.64	\$3.00
June 30, 2013	\$3.89	\$2.99
September 30, 2013	\$3.71	\$3.00
December 31, 2013	\$3.65	\$3.00
March 31, 2014	\$3.60	\$2.75
June 30, 2014	\$3.46	\$2.96
September 30, 2014	\$3.21	\$2.57

Form 10-K

Stockholders may obtain a copy of the Company's Form 10-K, without charge, by writing to Barnwell Industries, Inc., 1100 Alakea Street, Suite 2900, Honolulu, HI 96813 or by sending an email to barnwellinfo@brninc.com or by clicking on the "Last 10-K" link on the Company's website (www.brninc.com).



Barnwell Industries, Inc., 1100 Alakea Street, Suite 2900, Honolulu, HI 96813