

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
**For the quarterly period ended June 30, 2019**

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission File Number 1-5103

**BARNWELL INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**96813**  
(Zip code)

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

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.50 par value	BRN	NYSE American

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of August 7, 2019 there were 8,277,160 shares of common stock, par value \$0.50, outstanding.

**BARNWELL INDUSTRIES, INC.  
AND SUBSIDIARIES**

**INDEX**

<u>PART I.</u>	<u>FINANCIAL INFORMATION:</u>	
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	
	<u>Condensed Consolidated Balance Sheets - June 30, 2019 and September 30, 2018</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Operations - three and nine months ended June 30, 2019 and 2018</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Comprehensive Loss - three and nine months ended June 30, 2019 and 2018</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Equity - nine months ended June 30, 2019 and 2018</u>	<u>6</u>
	<u>Condensed Consolidated Statements of Cash Flows - nine months ended June 30, 2019 and 2018</u>	<u>7</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>44</u>
<u>PART II.</u>	<u>OTHER INFORMATION:</u>	
<u>Item 6.</u>	<u>Exhibits</u>	<u>45</u>
	<u>Signature</u>	<u>46</u>
	<u>Index to Exhibits</u>	<u>47</u>

## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	June 30, 2019	September 30, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,035,000	\$ 5,965,000
Certificates of deposit	—	741,000
Accounts and other receivables, net of allowance for doubtful accounts of: \$41,000 at June 30, 2019; \$42,000 at September 30, 2018	1,997,000	1,965,000
Income taxes receivable	166,000	2,461,000
Other current assets	2,138,000	950,000
Total current assets	9,336,000	12,082,000
Income taxes receivable, net of current portion	460,000	429,000
Asset for retirement benefits	1,029,000	848,000
Investments	711,000	1,608,000
Property and equipment	73,781,000	73,010,000
Accumulated depletion, depreciation, and amortization	(60,749,000)	(56,599,000)
Property and equipment, net	13,032,000	16,411,000
Total assets	\$ 24,568,000	\$ 31,378,000
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,214,000	\$ 1,191,000
Accrued capital expenditures	135,000	232,000
Accrued compensation	238,000	568,000
Accrued operating and other expenses	1,257,000	1,140,000
Current portion of asset retirement obligation	470,000	444,000
Other current liabilities	1,687,000	54,000
Total current liabilities	5,001,000	3,629,000
Deferred rent	172,000	107,000
Liability for retirement benefits	4,559,000	4,410,000
Asset retirement obligation	6,783,000	6,678,000
Deferred income tax liabilities	178,000	315,000
Total liabilities	16,693,000	15,139,000
Commitments and contingencies		
Equity:		
Common stock, par value \$0.50 per share; authorized, 20,000,000 shares; 8,445,060 issued at June 30, 2019 and September 30, 2018	4,223,000	4,223,000
Additional paid-in capital	1,350,000	1,350,000
Retained earnings	5,183,000	13,253,000
Accumulated other comprehensive loss, net	(666,000)	(514,000)
Treasury stock, at cost: 167,900 shares at June 30, 2019 and September 30, 2018	(2,286,000)	(2,286,000)
Total stockholders' equity	7,804,000	16,026,000
Non-controlling interests	71,000	213,000
Total equity	7,875,000	16,239,000
Total liabilities and equity	\$ 24,568,000	\$ 31,378,000

See Notes to Condensed Consolidated Financial Statements

**BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
<b>Revenues:</b>				
Oil and natural gas	\$ 1,688,000	\$ 616,000	\$ 4,844,000	\$ 2,428,000
Contract drilling	1,689,000	1,193,000	3,839,000	3,051,000
Sale of interest in leasehold land	—	1,310,000	165,000	1,310,000
Gas processing and other	32,000	49,000	119,000	210,000
	<u>3,409,000</u>	<u>3,168,000</u>	<u>8,967,000</u>	<u>6,999,000</u>
<b>Costs and expenses:</b>				
Oil and natural gas operating	1,314,000	544,000	3,900,000	1,777,000
Contract drilling operating	1,242,000	1,074,000	3,789,000	2,778,000
General and administrative	1,352,000	1,591,000	4,361,000	4,635,000
Depletion, depreciation, and amortization	731,000	187,000	2,308,000	694,000
Impairment of assets	—	165,000	2,413,000	202,000
Interest expense	—	—	4,000	—
Gain on sales of assets	—	—	—	(2,250,000)
	<u>4,639,000</u>	<u>3,561,000</u>	<u>16,775,000</u>	<u>7,836,000</u>
Loss before equity in (loss) income of affiliates and income taxes	(1,230,000)	(393,000)	(7,808,000)	(837,000)
Equity in (loss) income of affiliates	(259,000)	136,000	(545,000)	(97,000)
Loss before income taxes	(1,489,000)	(257,000)	(8,353,000)	(934,000)
Income tax benefit	(91,000)	(163,000)	(231,000)	(469,000)
Net loss	(1,398,000)	(94,000)	(8,122,000)	(465,000)
Less: Net (loss) earnings attributable to non-controlling interests	(33,000)	280,000	(32,000)	247,000
Net loss attributable to Barnwell Industries, Inc.	<u>\$ (1,365,000)</u>	<u>\$ (374,000)</u>	<u>\$ (8,090,000)</u>	<u>\$ (712,000)</u>
Basic and diluted net loss per common share attributable to Barnwell Industries, Inc. stockholders	<u>\$ (0.16)</u>	<u>\$ (0.05)</u>	<u>\$ (0.98)</u>	<u>\$ (0.09)</u>
Weighted-average number of common shares outstanding:				
Basic and diluted	<u>8,277,160</u>	<u>8,277,160</u>	<u>8,277,160</u>	<u>8,277,160</u>

See Notes to Condensed Consolidated Financial Statements

**BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(Unaudited)

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
Net loss	\$ (1,398,000)	\$ (94,000)	\$ (8,122,000)	\$ (465,000)
Other comprehensive (loss) income:				
Foreign currency translation adjustments, net of taxes of \$0	89,000	(76,000)	(194,000)	(263,000)
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0	9,000	30,000	42,000	93,000
Total other comprehensive (loss) income	98,000	(46,000)	(152,000)	(170,000)
Total comprehensive loss	(1,300,000)	(140,000)	(8,274,000)	(635,000)
Less: Comprehensive (loss) income attributable to non-controlling interests	(33,000)	280,000	(32,000)	247,000
Comprehensive loss attributable to Barnwell Industries, Inc.	\$ (1,267,000)	\$ (420,000)	\$ (8,242,000)	\$ (882,000)

See Notes to Condensed Consolidated Financial Statements

**BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**  
**Nine months ended June 30, 2019 and 2018**  
(Unaudited)

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non- controlling Interests	Total Equity
<b>Balance at September 30, 2017</b>	8,277,160	\$ 4,223,000	\$ 1,350,000	\$ 15,023,000	\$ (1,058,000)	\$ (2,286,000)	\$ 931,000	\$ 18,183,000
Distributions to non-controlling interests	—	—	—	—	—	—	(594,000)	(594,000)
Net loss (earnings)	—	—	—	(712,000)	—	—	247,000	(465,000)
Share-based compensation	—	—	1,000	—	—	—	—	1,000
Foreign currency translation adjustments, net of taxes of \$0	—	—	—	—	(263,000)	—	—	(263,000)
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0	—	—	—	—	93,000	—	—	93,000
<b>Balance at June 30, 2018</b>	<u>8,277,160</u>	<u>\$ 4,223,000</u>	<u>\$ 1,351,000</u>	<u>\$ 14,311,000</u>	<u>\$ (1,228,000)</u>	<u>\$ (2,286,000)</u>	<u>\$ 584,000</u>	<u>\$ 16,955,000</u>
<b>Balance at September 30, 2018</b>	8,277,160	\$ 4,223,000	\$ 1,350,000	\$ 13,253,000	\$ (514,000)	\$ (2,286,000)	\$ 213,000	\$ 16,239,000
Cumulative impact from the adoption of ASU No. 2014-09	—	—	—	20,000	—	—	—	20,000
Distributions to non-controlling interests	—	—	—	—	—	—	(110,000)	(110,000)
Net loss	—	—	—	(8,090,000)	—	—	(32,000)	(8,122,000)
Foreign currency translation adjustments, net of taxes of \$0	—	—	—	—	(194,000)	—	—	(194,000)
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0	—	—	—	—	42,000	—	—	42,000
<b>Balance at June 30, 2019</b>	<u>8,277,160</u>	<u>\$ 4,223,000</u>	<u>\$ 1,350,000</u>	<u>\$ 5,183,000</u>	<u>\$ (666,000)</u>	<u>\$ (2,286,000)</u>	<u>\$ 71,000</u>	<u>\$ 7,875,000</u>

See Notes to Condensed Consolidated Financial Statements

**BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Nine months ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (8,122,000)	\$ (465,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Equity in loss of affiliates	545,000	97,000
Depletion, depreciation, and amortization	2,308,000	694,000
Impairment of assets	2,413,000	202,000
Gain on sale of oil and natural gas properties	—	(2,250,000)
Retirement benefits expense	133,000	222,000
Income tax receivable, noncurrent	(31,000)	(460,000)
Deferred rent liability	65,000	65,000
Accretion of asset retirement obligation	452,000	211,000
Deferred income tax (benefit) expense	(134,000)	420,000
Asset retirement obligation payments	(310,000)	(589,000)
Share-based compensation benefit	(31,000)	(6,000)
Retirement plan contributions and payments	(121,000)	(215,000)
Sale of interest in leasehold land, net of fees paid	(124,000)	(1,272,000)
Increase (decrease) from changes in current assets and liabilities	1,326,000	(975,000)
Net cash used in operating activities	<u>(1,631,000)</u>	<u>(4,321,000)</u>
Cash flows from investing activities:		
Purchase of certificates of deposit	—	(3,958,000)
Proceeds from the maturity of certificates of deposit	741,000	4,911,000
Distribution from equity investees in excess of earnings	352,000	417,000
Net proceeds from sale of interest in leasehold land	124,000	929,000
Proceeds from sale of oil and natural gas assets	1,519,000	770,000
Payments to acquire oil and natural gas properties	(355,000)	—
Capital expenditures - oil and natural gas	(58,000)	(473,000)
Capital expenditures - all other	(1,221,000)	(114,000)
Increase in notes receivable	(300,000)	—
Net cash provided by investing activities	<u>802,000</u>	<u>2,482,000</u>
Cash flows from financing activities:		
Distributions to non-controlling interests	(110,000)	(594,000)
Net cash used in financing activities	<u>(110,000)</u>	<u>(594,000)</u>
Effect of exchange rate changes on cash and cash equivalents	9,000	(309,000)
Net decrease in cash and cash equivalents	<u>(930,000)</u>	<u>(2,742,000)</u>
Cash and cash equivalents at beginning of period	5,965,000	16,281,000
Cash and cash equivalents at end of period	<u>\$ 5,035,000</u>	<u>\$ 13,539,000</u>

See Notes to Condensed Consolidated Financial Statements

**BARNWELL INDUSTRIES, INC.  
AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation*

The condensed 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) and a 75%-owned land investment partnership (KD Kona 2013 LLLP). All significant intercompany accounts and transactions have been eliminated.

Undivided interests in oil and natural gas exploration and production joint ventures are consolidated on a proportionate basis. Barnwell’s investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in variable interest entities in which the Company is not deemed to be the primary beneficiary are accounted for by the equity method.

Unless otherwise indicated, all references to “dollars” in this Form 10-Q are to U.S. dollars.

*Unaudited Interim Financial Information*

The accompanying unaudited condensed consolidated financial statements and notes have been prepared by Barnwell in accordance with the rules and regulations of the United States (“U.S.”) Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in Barnwell’s September 30, 2018 Annual Report on Form 10-K. The Condensed Consolidated Balance Sheet as of September 30, 2018 has been derived from audited consolidated financial statements.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at June 30, 2019, results of operations and comprehensive loss for the three and nine months ended June 30, 2019 and 2018, and equity and cash flows for the nine months ended June 30, 2019 and 2018, have been made. The results of operations for the period ended June 30, 2019 are not necessarily indicative of the operating results for the full year.

*Use of Estimates in the Preparation of Condensed Consolidated Financial Statements*

The preparation of the condensed consolidated 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.

### *Revenue Recognition*

On October 1, 2018, the Company adopted Accounting Standards Updates (“ASU”) No. 2014-09, “Revenue from Contracts with Customers” (“Topic 606”) using the modified retrospective method applied to all contracts. Results for reporting periods beginning October 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The Company recorded an adjustment to retained earnings on October 1, 2018 due to the cumulative impact of adopting Topic 606. See Note 7 “Revenue from Contracts with Customers” for the required disclosures related to the impact of adopting this standard and a discussion of the Company’s updated policies related to revenue recognition discussed below.

Barnwell operates in and derives revenue from the following three principal business segments:

- *Oil and Natural Gas Segment* - Barnwell engages in oil and natural gas development, production, acquisitions and sales in Canada.
- *Land Investment Segment* - Barnwell invests in land interests in Hawaii.
- *Contract Drilling Segment* - Barnwell provides well drilling services and water pumping system installation and repairs in Hawaii.

*Oil and Natural Gas* - Barnwell’s investments in oil and natural gas properties are located in Alberta, Canada. These property interests are principally held under governmental leases or licenses. Barnwell sells the large majority of its oil, natural gas and natural gas liquids production under short-term contracts between itself and marketers based on prices indexed to market prices and recognizes revenue at a point in time when the oil, natural gas and natural gas liquids are delivered, as this is where Barnwell’s performance obligation is satisfied and title has passed to the customer. Under Topic 606, there were no changes to revenue recognition for the Oil and Natural Gas segment.

*Land Investment* - Barnwell is entitled to receive contingent residual payments from the entities that previously purchased Barnwell’s land investment interests under contracts entered into in prior years. The residual payments under those contracts become due when the entities sell lots and/or residential units in the areas that were previously sold under the aforementioned contracts or when a preferred payment threshold is achieved. Prior to the adoption of Topic 606, the payments received by Barnwell were deemed contingent revenues under the full accrual method and were recognized as revenues when payment is assured, which was generally when a lot sale occurred or the preferred payments were made. The adoption of Topic 606 did not fundamentally change the way Barnwell recognizes these contingent residual revenue payments due primarily to the variable consideration constraint provision of Topic 606, whereby the constraint is removed only when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As such, there were no significant changes to revenue recognition for the Land Investment segment under Topic 606.

*Contract Drilling* - Through contracts which are normally less than twelve months in duration, Barnwell drills water and water monitoring wells and installs and repairs water pumping systems in Hawaii. Under the Topic 606 requirements, Barnwell recognizes revenue from well drilling or the installation of pumps over time based on total costs incurred on the projects relative to the total expected costs to satisfy

the performance obligation as management believes this is an accurate representation of the percentage of completion as control is continuously transferred to the customer. Uninstalled materials, which typically consists of well casing or pumps, are excluded in the costs-to-costs calculation for the duration of the contract as including these costs would result in a distortion of progress towards satisfaction of the performance obligation due to the resulting cumulative catch-up in margin in a single period. An equal amount of cost and revenue is recorded when uninstalled materials are controlled by the customer, which is typically when Barnwell has the right to payment for the materials and when the materials are delivered to the customer's site or location and such materials have been accepted by the customer. Uninstalled materials are held in inventory and included in "Other current assets" on the Company's Condensed Consolidated Balance Sheets until control is transferred to the customer. When the estimate on a contract indicates a loss, Barnwell records the entire estimated loss in the period the loss becomes known.

Contract price and cost estimates are reviewed periodically as work progresses and adjustments proportionate to the costs incurred to date to total estimated costs at completion are reflected in contract revenues in the reporting period when such estimates are revised. The nature of accounting for these contracts is such that refinements of the estimating process for changing conditions and new developments may occur and are characteristic of the process. Many factors can and do change during a contract performance obligation period which can result in a change to contract profitability including differing site conditions (to the extent that contract remedies are unavailable), the availability of skilled contract labor, the performance of major material suppliers, the performance of major subcontractors, unusual weather conditions and unexpected changes in material costs, among others. These factors may result in revisions to costs and income and are recognized in the period in which the revisions become known. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate.

Management evaluates the performance of contracts on an individual basis. In the ordinary course of business, but at least quarterly, we prepare updated estimates that may impact the cost and profit or loss for each contract. The cumulative effect of revisions in estimates of the total forecasted revenue and costs, including any unapproved change orders and claims, during the course of the contract is reflected in the accounting period in which the facts that caused the revision become known. Changes in the cost estimates can have a material impact on our consolidated financial statements and are reflected in the results of operations when they become known.

Unexpected significant inefficiencies that were not considered a risk at the time of entering into the contract, such as design or construction execution errors that result in significant wasted resources, are excluded from the measure of progress toward completion and the costs are expensed as incurred.

To the extent a contract is deemed to have multiple performance obligations, the Company allocates the transaction price of the contract to each performance obligation using its best estimate of the standalone selling price of each distinct good or service in the contract.

When the Company receives consideration, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a sales contract, the Company records deferred revenue, which represents a contract liability. Such deferred revenue typically results from billings in excess of costs and estimated earnings on uncompleted contracts. Contract liabilities are included in "Other current liabilities" on the Company's Condensed Consolidated Balance Sheets. Costs and estimated earnings in excess of billings represent certain amounts under customer contracts that were earned and billable, but yet not invoiced, and are included in contract assets and reported in "Other current assets" on the Company's Condensed Consolidated Balance Sheets.

### *Significant Accounting Policies*

Other than the change to Barnwell's "Revenue Recognition" policy noted above, there have been no other changes to Barnwell's significant accounting policies as described in the Notes to Consolidated Financial Statements included in Item 8 of the Company's most recently filed Annual Report on Form 10-K.

### *Recently Adopted Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," 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 impacts of Topic 606 on Barnwell are described in the "Revenue Recognition" accounting policy noted above as well as Note 7.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The Company adopted the provisions of this ASU effective October 1, 2018. The adoption of this update did not have an impact on Barnwell's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which addresses the classification of certain specific cash flow issues including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of certain insurance claims and distributions received from equity method investees. The Company adopted the provisions of this ASU effective October 1, 2018. The adoption of this update did not have an impact on Barnwell's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory," which provides guidance on recognition of current income tax consequences for intra-entity asset transfers (other than inventory) at the time of transfer. This represents a change from current GAAP, where the consolidated tax consequences of intra-entity asset transfers are deferred until the transferred asset is sold to a third party or otherwise recovered through use. The Company adopted the provisions of this ASU effective October 1, 2018. The adoption of this update did not have an impact on Barnwell's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows - Restricted Cash," which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Thus, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and the end-of-period total amounts set forth on the statement of cash flows. The Company adopted the provisions of this ASU effective October 1, 2018. The adoption of this update did not have an impact on Barnwell's consolidated financial statements as Barnwell did not have restricted cash at the time of adoption.

In February 2017, the FASB issued ASU No. 2017-05, "Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets," which clarifies the scope of Subtopic 610-20 and adds guidance for partial sales of nonfinancial assets. The Company adopted the provisions of

this ASU effective October 1, 2018. The adoption of this update did not have an impact on Barnwell's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires employers to report the service cost component separate from the other components of net pension benefit costs. The changes to the standard require employers to report the service cost component in the same line item as other compensation costs arising from services rendered by employees during the reporting period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside the subtotal of income from operations, if one is presented. If a separate line item is not used, the line item used in the income statement must be disclosed. The Company adopted the provisions of this ASU effective October 1, 2018. The adoption of this update changed the disclosure of net pension benefit costs in Note 5.

In May 2017, the FASB issued ASU No. 2017-09, "Stock Compensation - Scope of Modification Accounting," which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. The Company adopted the provisions of this ASU effective October 1, 2018. The adoption of this update did not have an impact on Barnwell's consolidated financial statements.

#### *Impact of Pending Adoption of Significant Accounting Pronouncements*

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which seeks to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. In general, a right-of-use asset and lease obligation will be recorded for leases exceeding a twelve-month term whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption must be calculated using the applicable incremental borrowing rate at the date of adoption. Subsequent to the issuance of ASU No. 2016-02, the FASB issued ASU No. 2018-01, "Land Easement Practical Expedient for Transition to Topic 842," which provides an optional transition practical expedient to not evaluate existing or expired land easements under the new lease standard, ASU No. 2018-10, "Clarifying Pre-Effective Amendments to the Forthcoming Lease Accounting Rules," which provides further clarification on certain guidance within ASU No. 2016-02, "Leases," ASU No. 2018-11, "Leases (Topic 842) - Targeted Improvements," which allows for a transitional method of adopting the new lease standard, and ASU No. 2019-01, "Leases (Topic 842) - Codification Improvements," which amended certain aspects of the new leasing standard. These ASUs are effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, and allow for the use of either a full retrospective approach for all periods presented in the period of adoption, or a modified retrospective transition approach. Barnwell is currently evaluating the effect that the adoption of this update will have on the consolidated financial statements.

## **2. LOSS PER COMMON SHARE**

Basic loss per share is computed using the weighted-average number of common shares outstanding for the period. Diluted 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 loss per share if their effect is anti-dilutive.

Options to purchase 318,750 shares of common stock were excluded from the computation of diluted shares for the three and nine months ended June 30, 2019 and 2018, as their inclusion would have been antidilutive.

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

	Three months ended June 30, 2019		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	\$ (1,365,000)	8,277,160	\$ (0.16)
Effect of dilutive securities - common stock options	—	—	
Diluted net loss per share	<u>\$ (1,365,000)</u>	<u>8,277,160</u>	<u>\$ (0.16)</u>
	Nine months ended June 30, 2019		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	\$ (8,090,000)	8,277,160	\$ (0.98)
Effect of dilutive securities - common stock options	—	—	
Diluted net loss per share	<u>\$ (8,090,000)</u>	<u>8,277,160</u>	<u>\$ (0.98)</u>
	Three months ended June 30, 2018		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	\$ (374,000)	8,277,160	\$ (0.05)
Effect of dilutive securities - common stock options	—	—	
Diluted net loss per share	<u>\$ (374,000)</u>	<u>8,277,160</u>	<u>\$ (0.05)</u>
	Nine months ended June 30, 2018		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	\$ (712,000)	8,277,160	\$ (0.09)
Effect of dilutive securities - common stock options	—	—	
Diluted net loss per share	<u>\$ (712,000)</u>	<u>8,277,160</u>	<u>\$ (0.09)</u>

### 3. INVESTMENTS

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

	<b>June 30, 2019</b>	September 30, 2018
Investment in Kukio Resort Land Development Partnerships	<b>\$ 661,000</b>	\$ 1,558,000
Investment in leasehold land interest – Lot 4C	<b>50,000</b>	50,000
Total non-current investments	<b>\$ 711,000</b>	\$ 1,608,000

#### *Investment in Kukio Resort Land Development Partnerships*

On November 27, 2013, Barnwell, through a wholly-owned subsidiary, entered into two limited liability limited partnerships, KD Kona 2013 LLLP and KKM Makai, LLLP (“KKM”), and indirectly acquired a 19.6% non-controlling ownership interest in each of KD Kukio Resorts, LLLP, KD Maniniowali, LLLP and KD Kaupulehu, LLLP (“KDK”) for \$5,140,000. These entities, collectively referred to hereinafter as the “Kukio Resort 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. KDK holds interests in KD Acquisition, LLLP (“KD I”) and KD Acquisition II, LP, formerly KD Acquisition II, LLLP (“KD II”). KD I is the developer of Kaupulehu Lot 4A Increment I (“Increment I”), and KD II is the developer of Kaupulehu Lot 4A Increment II (“Increment II”). Barnwell’s ownership interests in the Kukio Resort Land Development Partnerships is accounted for using the equity method of accounting. The partnerships derive income from the sale of residential parcels, of which 19 lots remain to be sold at Increment I as of June 30, 2019, as well as from commissions on real estate sales by the real estate sales office.

In March 2019, KD II admitted a new development partner, Replay Kaupulehu Development, LLC (“Replay”), a party unrelated to Barnwell, in an effort to move forward with development of the remainder of Increment II at Kaupulehu. Effective March 7, 2019, KDK and Replay hold ownership interests of 55% and 45%, respectively, of KD II. Accordingly, Barnwell has a 10.8% indirect non-controlling ownership interest in KD II through KDK as of that date that will continue to be accounted for using the equity method of accounting. Barnwell continues to have an indirect 19.6% non-controlling ownership interest in KD Kukio Resorts, LLLP, KD Maniniowali, LLLP, and KD I.

During the nine months ended June 30, 2019 and 2018, Barnwell received net cash distributions in the amount of \$314,000 and \$373,000, respectively, from the Kukio Resort Land Development Partnerships after distributing \$38,000 and \$44,000, respectively, to non-controlling interests.

Barnwell has the right to receive distributions from its non-controlling interest in KKM in proportion to its partner capital sharing ratio of 34.45%. Barnwell is entitled to a 100% preferred return up to \$1,000,000 from KKM on any allocated equity in income of the Kukio Resort Land Development Partnerships for cumulative distributions to all of its partners in excess of \$45,000,000 from those partnerships. With the distribution in the nine months ended June 30, 2019, cumulative distributions from the Kukio Resort Land Development Partnerships totaled \$45,000,000. Because we have no control over the distributions from the Kukio Resort Land Development Partnerships and the ability of the Kukio Resort Land Development Partnerships to make such distributions is dependent upon their future sales of lots, we have not recorded any estimated potential preferred return from KKM in our equity in income to date. However, if sufficient distributions are made by the Kukio Resort Land Development Partnerships in the future, Barnwell will have

equity in income of affiliates for the recognition of the preferred return. There is no assurance that any future distributions and resulting preferred returns will occur.

Barnwell's share of the operating results of its equity affiliates was a loss of \$259,000 and \$545,000 for the three and nine months ended June 30, 2019, respectively and income of \$136,000 and a loss of \$97,000 for the three and nine months ended June 30, 2018, respectively. The equity in the underlying net assets of the Kukio Resort Land Development Partnerships exceeds the carrying value of the investment in affiliates by approximately \$303,000 as of June 30, 2019, which is attributable to differences in the value of capitalized development costs and a note receivable. The basis difference will be recognized as the partnerships sell lots and recognize the associated costs and sell memberships for the Kuki`o Golf and Beach Club for which the receivable relates. The basis difference adjustments of \$10,000 and \$11,000 for the three and nine months ended June 30, 2019, respectively, and \$3,000 and \$6,000 for the three and nine months ended June 30, 2018, respectively, increased equity in income of affiliates.

Summarized financial information for the Kukio Resort Land Development Partnerships is as follows:

	Three months ended June 30,	
	2019	2018
Revenue	\$ 575,000	\$ 3,559,000
Gross profit	\$ 45,000	\$ 1,777,000
Net (loss) earnings	\$ (1,190,000)	\$ 841,000
	Nine months ended June 30,	
	2019	2018
Revenue	\$ 2,894,000	\$ 7,348,000
Gross profit	\$ 896,000	\$ 3,511,000
Net (loss) earnings	\$ (2,252,000)	\$ 153,000

#### *Sale of Interest in Leasehold Land*

Kaupulehu Developments has the right to receive payments from KD I and KD II resulting from the sale of lots and/or residential units within Increment I and Increment II by KD I and KD II (see Note 12).

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: 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. During the nine months ended June 30, 2019, one single-family lot in Increment I was sold bringing the total amount of gross proceeds from single-family lot sales through June 30, 2019 to \$216,400,000. As of June 30, 2019, 19 single-family lots, of the 80 lots developed within Increment I, remained to be sold.

Under the terms of the former Increment II agreement with KD II, Kaupulehu Developments was entitled to receive payments from KD II resulting from the sale of lots and/or residential units by KD II within Increment II. Through March 6, 2019, the payments were based on a percentage of gross receipts from KD II's sales ranging from 8% to 10% of the price of improved or unimproved lots or 2.60% to 3.25% of the price of units constructed on a lot, to be determined in the future depending upon a number of variables, including whether the lots are sold prior to improvement. Two ocean front parcels approximately two to three

acres in size fronting the ocean were developed within Increment II by KD II, of which one was sold in fiscal 2017 and one was sold in fiscal 2016. The remaining acreage within Increment II is not yet under development.

Through March 6, 2019, Kaupulehu Developments was also entitled to receive 50% of distributions otherwise payable from KD II to its members after the members of KD II have received distributions equal to the original basis of capital invested in the project, up to \$8,000,000. Through March 6, 2019, a cumulative total of \$3,500,000 was received from KD II under this arrangement, out of the \$8,000,000 maximum. The former arrangement also included the rights to three single-family residential lots in Phase 2 of Increment II when developed, at no cost to Barnwell, with a commitment by Barnwell to begin to construct a residence upon each lot within six months of transfer.

Concurrent with the transaction whereby KD II admitted Replay as a new development partner, Kaupulehu Developments entered into new agreements with KD II whereby the aforementioned terms of the former Increment II arrangement were eliminated and Kaupulehu Developments will instead be entitled to 15% of the distributions of KD II, the cost of which is to be solely borne by KDK out of its 55% ownership interest in KD II, plus a priority payout of 10% of KDK's cumulative net profits derived from Increment II sales subsequent to Phase 2A, up to a maximum of \$3,000,000 as to the priority payout. Such interests are limited to distributions or net profits interests and Barnwell will not have any partnership interests in KD II or KDK through its interest in Kaupulehu Developments. The new arrangement also gives Barnwell rights to three single-family residential lots in Phase 2A of Increment II, and four single-family residential lots in phases subsequent to Phase 2A when such lots are developed by KD II, all at no cost to Barnwell. Barnwell is committed to commence construction of improvements within 90 days of the transfer of the four lots in the phases subsequent to Phase 2A as a condition of the transfer of such lots. Also, in addition to Barnwell's existing obligations to pay professional fees to certain parties based on percentages of its gross receipts, Kaupulehu Developments is now also obligated to pay an amount equal to 0.72% and 0.2% of the cumulative net profits of KD II to KD Development, LLC and a pool of various individuals, respectively, all of whom are partners of KKM and are unrelated to Barnwell, in compensation for the agreement of these parties to admit the new development partner for Increment II. Such compensation will be reflected as the obligation becomes probable and the amount of the obligation can be reasonably estimated. The new agreements also specify that Kaupulehu Developments was to be paid \$1,000,000 by KD II prior to admission of Replay as a partner. This \$1,000,000 payment had already been received in June 2018 and is included in the \$3,500,000 cumulative total as of March 6, 2019 discussed above.

The Increment I percentage of sales arrangement between Barnwell and KD I remains unchanged.

The following table summarizes the Increment I and Increment II revenues from KD I and KD II and the amount of fees directly related to such revenues:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
<b>Sale of interest in leasehold land:</b>				
Revenues - sale of interest in leasehold land	\$ —	\$ 1,310,000	\$ 165,000	\$ 1,310,000
Fees - included in general and administrative expenses	—	(175,000)	(20,000)	(175,000)
Sale of interest in leasehold land, net of fees	\$ —	\$ 1,135,000	\$ 145,000	\$ 1,135,000

## *Investment in Leasehold Land Interest - Lot 4C*

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

### **4. OIL AND NATURAL GAS PROPERTIES**

#### *Dispositions*

In October 2017, Barnwell entered into a Purchase and Sale Agreement with an independent third party and sold its oil and natural gas properties located in the Pouce Coupe area of Alberta, Canada. The sales price per the agreement was adjusted to \$79,000 for customary purchase price adjustments to reflect the economic activity from the effective date of May 1, 2017 to the closing date. From Barnwell's net proceeds, \$37,000 was withheld and remitted by the buyer to the Canada Revenue Agency for potential amounts due for Barnwell's Canadian income taxes. No gain or loss was recognized on this sale as it did not result in a significant alteration of the relationship between capitalized costs and proved reserves. Proceeds from the disposition were credited to the full cost pool.

In February 2018, Barnwell sold its oil properties located in the Red Earth area of Alberta, Canada. As a result of the significant impact that the sale of Red Earth had on the relationship between capitalized costs and proved reserves of the sold property and retained properties, Barnwell did not credit the sales proceeds to the full cost pool, but instead calculated a gain on the sale of Red Earth of \$2,135,000 which was recognized in the nine months ended June 30, 2018, in accordance with the guidance in Rule 4-10(c)(6) (i) of Regulation S-X.

Also included in gain on sales of assets for the nine months ended June 30, 2018 is a \$115,000 gain on the sale of Barnwell's interest in natural gas transmission lines and related surface facilities in the Stolberg area in February 2018.

There were no such gains or losses on sales of operating assets recognized in the current year.

The \$1,519,000 of proceeds from sale of oil and gas properties included in the Condensed Consolidated Statement of Cash Flows for the nine months ended June 30, 2019, primarily represents the refund of income taxes previously withheld from what otherwise would have been proceeds on prior years' oil and gas property sales.

#### *Acquisitions*

During the quarter ended December 31, 2018, Barnwell acquired additional working interests in oil and natural gas properties located in the Wood River and Twining areas of Alberta, Canada for cash consideration of \$355,000. The purchase prices per the agreements were adjusted for customary purchase price adjustments to reflect the economic activity from the effective date to the closing date. The customary adjustments to the purchase prices were finalized during the quarter ended June 30, 2019, and resulted in an immaterial adjustment.

There were no other oil and natural gas property acquisitions during the nine months ended June 30, 2019.

## *Impairment of Oil and Natural Gas Properties*

Under the full cost method of accounting, the Company performs quarterly oil and natural gas ceiling test calculations. There was no ceiling test impairment during the three months ended June 30, 2019. There was a ceiling test impairment of \$2,413,000 during the nine months ended June 30, 2019 as a result of the December 31, 2018 and March 31, 2019 ceiling tests. There were no ceiling test impairments in the same periods of the prior year.

Changes in the 12-month rolling average first-day-of-the-month prices for oil, natural gas and natural gas liquids prices, the value of reserve additions as compared to the amount of capital expenditures to obtain them, and changes in production rates and estimated levels of reserves, future development costs and the market value of unproved properties, impact the determination of the maximum carrying value of oil and natural gas properties. Based on the 12-month rolling average first-day-of-the-month prices for July and August 2019, it is reasonably possible that we will incur a further ceiling test impairment in the Company's fourth quarter ending September 30, 2019. The Company is currently 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 actual results through the end of September 2019.

In addition, the ceiling test is also impacted by any changes in management's quarterly evaluation of the Company's ability to fund the approximately \$14,000,000 of future capital expenditures necessary over the next five years to develop the proved undeveloped reserves that are largely in the Twining area, the value of which is included in the calculation of the ceiling limitation. If facts, circumstances, estimates and assumptions underlying management's assessment of the Company's ability to fund such capital expenditures change such that it is no longer reasonably certain that all of the approximately \$14,000,000 of capital expenditures necessary to develop the proved undeveloped reserves can be made, it is likely that we will incur a further ceiling test impairment at that time.

## **5. RETIREMENT PLANS**

Barnwell sponsors a noncontributory defined benefit pension plan ("Pension Plan") covering substantially all of its U.S. employees. Additionally, 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 eligible U.S. employees.

The following tables detail the components of net periodic benefit (income) cost for Barnwell's retirement plans:

	Pension Plan		SERP		Postretirement Medical	
	Three months ended June 30,					
	2019	2018	2019	2018	2019	2018
Service cost	\$ 41,000	\$ 54,000	\$ 6,000	\$ 10,000	\$ —	\$ —
Interest cost	92,000	88,000	16,000	19,000	25,000	19,000
Expected return on plan assets	(165,000)	(147,000)	—	—	—	—
Amortization of prior service cost (credit)	2,000	2,000	(2,000)	(1,000)	—	—
Amortization of net actuarial loss (gain)	(3,000)	25,000	(1,000)	3,000	13,000	2,000
Net periodic benefit (income) cost	\$ (33,000)	\$ 22,000	\$ 19,000	\$ 31,000	\$ 38,000	\$ 21,000

	Pension Plan		SERP		Postretirement Medical	
	Nine months ended June 30,					
	2019	2018	2019	2018	2019	2018
Service cost	\$ 141,000	\$ 162,000	\$ 24,000	\$ 30,000	\$ —	\$ —
Interest cost	279,000	266,000	58,000	57,000	75,000	57,000
Expected return on plan assets	(486,000)	(443,000)	—	—	—	—
Amortization of prior service cost (credit)	5,000	5,000	(4,000)	(4,000)	—	—
Amortization of net actuarial loss	1,000	74,000	1,000	10,000	39,000	8,000
Net periodic benefit (income) cost	\$ (60,000)	\$ 64,000	\$ 79,000	\$ 93,000	\$ 114,000	\$ 65,000

The components of net periodic benefit (income) cost, including service cost, are included in “General and administrative” expenses in the Company's Condensed Consolidated Statements of Operations.

Barnwell contributed \$115,000 to the Pension Plan during the nine months ended June 30, 2019 and estimates that it will not make any further cash contributions during the remainder of fiscal 2019. The SERP and Postretirement Medical plans are unfunded, and Barnwell funds benefits when payments are made. Expected payments under the Postretirement Medical plan and the SERP for fiscal 2019 are not material. Fluctuations in actual equity 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.

## 6. INCOME TAXES

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

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
United States	\$ (637,000)	\$ (12,000)	\$ (3,059,000)	\$ (2,137,000)
Canada	(819,000)	(525,000)	(5,262,000)	956,000
	<u>\$ (1,456,000)</u>	<u>\$ (537,000)</u>	<u>\$ (8,321,000)</u>	<u>\$ (1,181,000)</u>

The components of the income tax benefit are as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
Current	\$ (63,000)	\$ (60,000)	\$ (97,000)	\$ (889,000)
Deferred	(28,000)	(103,000)	(134,000)	420,000
	<u>\$ (91,000)</u>	<u>\$ (163,000)</u>	<u>\$ (231,000)</u>	<u>\$ (469,000)</u>

Consolidated taxes do not bear a customary relationship to pretax results due primarily to the fact that the Company is taxed separately in Canada based on Canadian source operations and in the U.S. based on consolidated operations, and essentially all deferred tax assets, net of relevant offsetting deferred tax liabilities and any amounts estimated to be realizable through tax carryback strategies, are not estimated to have a future benefit as tax credits or deductions. Income from our non-controlling interest in the Kukio Resort Land Development Partnerships is treated as non-unitary for state of Hawaii unitary filing purposes, thus unitary Hawaii losses provide limited sheltering of such non-unitary income.

In the three months ended June 30, 2019, the Government of Alberta reduced its corporate income tax rate from 12% to 11%, effective July 1, 2019, with further reductions in the rate by 1% on January 1 of every year until it reaches 8% on January 1, 2022. Because our Canadian operations are currently generating losses and net Canadian deferred tax assets have a full valuation allowance, the reduction in rates had no financial statement impact.

The repeal of the corporate Alternative Minimum Tax (“AMT”) by the Tax Cuts and Jobs Act of 2017 (“TCJA”), enacted on December 22, 2017, provides a mechanism for the refund over time of any unused AMT credit carryovers. Prior to the enactment of the TCJA, it was not more likely than not that the Company’s AMT credit carryovers would provide a future benefit, as such the AMT deferred tax asset had a full valuation allowance. As a result of the TCJA provision for refundability of the AMT, the Company recorded a current income tax benefit of \$460,000 in the quarter ended December 31, 2017 to reflect the undiscounted unused AMT credit carryover balance as a non-current income tax receivable. Respective portions of this balance will be reclassified to current income taxes receivable when amounts are eligible for refund within one year of the balance sheet date.

## 7. REVENUE FROM CONTRACTS WITH CUSTOMERS

### *Adoption*

On October 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to all contracts. Results for operating periods beginning October 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. Changes in other current assets and other current liabilities are primarily due to Topic 606's required treatment for the contract drilling segment's uninstalled materials and the related impact on billings in excess of costs and estimated earnings, which is now referred to as contract liabilities. Additionally, the Company recorded a net increase to beginning retained earnings of \$20,000 as of October 1, 2018 due to the cumulative impact of adopting Topic 606, as detailed below. The increase to beginning retained earnings was due entirely to the impact of adoption of Topic 606 on the contract drilling business segment.

	October 1, 2018		
	Pre-606 Balances	606 Adjustments	Adjusted Balances
<u>ASSETS</u>			
Current assets:			
Accounts and other receivables, net of allowance for doubtful accounts	\$ 1,965,000	\$ (308,000)	\$ 1,657,000
Other current assets	950,000	687,000	1,637,000
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Other current liabilities	54,000	359,000	413,000
Equity:			
Retained earnings	13,253,000	20,000	13,273,000

The following tables summarize the impact of adopting Topic 606 on the Company's Condensed Consolidated Statements of Operations and Condensed Consolidated Balance Sheets:

Three months ended June 30, 2019			
Impact of changes in accounting policies			
	As Reported	Balances without adoption of Topic 606	Effect of change increase (decrease)
<b>Revenues:</b>			
Contract drilling	\$ 1,689,000	\$ 1,783,000	\$ (94,000)
<b>Costs and expenses:</b>			
Contract drilling operating	1,242,000	1,373,000	(131,000)
Loss before equity in loss of affiliates and income taxes	(1,230,000)	(1,267,000)	37,000
Loss before income taxes	(1,489,000)	(1,526,000)	37,000
Net loss	(1,398,000)	(1,435,000)	37,000
Less: Net loss attributable to non-controlling interests	(33,000)	(33,000)	—
Net loss attributable to Barnwell Industries, Inc. stockholders	\$ (1,365,000)	\$ (1,402,000)	\$ 37,000
Basic and diluted net loss per common share attributable to Barnwell Industries, Inc. stockholders	\$ (0.16)	\$ (0.17)	\$ 0.01

Nine months ended June 30, 2019			
Impact of changes in accounting policies			
	As Reported	Balances without adoption of Topic 606	Effect of change increase (decrease)
<b>Revenues:</b>			
Contract drilling	\$ 3,839,000	\$ 3,201,000	\$ 638,000
<b>Costs and expenses:</b>			
Contract drilling operating	3,789,000	3,183,000	606,000
Loss before equity in loss of affiliates and income taxes	(7,808,000)	(7,840,000)	32,000
Loss before income taxes	(8,353,000)	(8,385,000)	32,000
Net loss	(8,122,000)	(8,154,000)	32,000
Less: Net earnings attributable to non-controlling interests	(32,000)	(32,000)	—
Net loss attributable to Barnwell Industries, Inc. stockholders	\$ (8,090,000)	\$ (8,122,000)	\$ 32,000
Basic and diluted net loss per common share attributable to Barnwell Industries, Inc. stockholders	\$ (0.98)	\$ (0.98)	\$ —

June 30, 2019

Impact of changes in accounting policies

	As Reported	Balances without adoption of Topic 606	Effect of change increase (decrease)
<b>ASSETS</b>			
Current assets:			
Accounts and other receivables, net of allowance for doubtful accounts	\$ 1,997,000	\$ 2,450,000	\$ (453,000)
Other current assets	2,138,000	1,248,000	890,000
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Other current liabilities	1,687,000	1,302,000	385,000
Equity:			
Retained earnings	5,183,000	5,131,000	52,000

The impact in revenue recognition due to the adoption of Topic 606 is primarily from the timing of revenue recognition for uninstalled materials. Refer to Note 1 “Summary of Significant Accounting Policies” for a summary of the Company’s significant policies for revenue recognition. There were no impacts to the oil and natural gas or land investment segments.

*Disaggregation of Revenue*

The following tables provides information about disaggregated revenue by revenue streams, reportable segments, geographical region, and timing of revenue recognition for the three and nine months ended June 30, 2019.

	Three months ended June 30, 2019				
	Oil and natural gas	Contract drilling	Land investment	Other	Total
Revenue streams:					
Oil	\$ 1,419,000	\$ —	\$ —	\$ —	\$ 1,419,000
Natural gas	152,000	—	—	—	152,000
Natural gas liquids	117,000	—	—	—	117,000
Drilling and pump	—	1,689,000	—	—	1,689,000
Other	—	—	—	15,000	15,000
Total revenues before interest income	<u>\$ 1,688,000</u>	<u>\$ 1,689,000</u>	<u>\$ —</u>	<u>\$ 15,000</u>	<u>\$ 3,392,000</u>
Geographical regions:					
United States	\$ —	\$ 1,689,000	\$ —	\$ —	\$ 1,689,000
Canada	1,688,000	—	—	15,000	1,703,000
Total revenues before interest income	<u>\$ 1,688,000</u>	<u>\$ 1,689,000</u>	<u>\$ —</u>	<u>\$ 15,000</u>	<u>\$ 3,392,000</u>
Timing of revenue recognition:					
Goods transferred at a point in time	\$ 1,688,000	\$ —	\$ —	\$ 15,000	\$ 1,703,000
Services transferred over time	—	1,689,000	—	—	1,689,000
Total revenues before interest income	<u>\$ 1,688,000</u>	<u>\$ 1,689,000</u>	<u>\$ —</u>	<u>\$ 15,000</u>	<u>\$ 3,392,000</u>

Nine months ended June 30, 2019

	Oil and natural gas	Contract drilling	Land investment	Other	Total
Revenue streams:					
Oil	\$ 3,792,000	\$ —	\$ —	\$ —	\$ 3,792,000
Natural gas	650,000	—	—	—	650,000
Natural gas liquids	402,000	—	—	—	402,000
Drilling and pump	—	3,839,000	—	—	3,839,000
Contingent residual payments	—	—	165,000	—	165,000
Other	—	—	—	69,000	69,000
Total revenues before interest income	<u>\$ 4,844,000</u>	<u>\$ 3,839,000</u>	<u>\$ 165,000</u>	<u>\$ 69,000</u>	<u>\$ 8,917,000</u>
Geographical regions:					
United States	\$ —	\$ 3,839,000	\$ 165,000	\$ 1,000	\$ 4,005,000
Canada	4,844,000	—	—	68,000	4,912,000
Total revenues before interest income	<u>\$ 4,844,000</u>	<u>\$ 3,839,000</u>	<u>\$ 165,000</u>	<u>\$ 69,000</u>	<u>\$ 8,917,000</u>
Timing of revenue recognition:					
Goods transferred at a point in time	\$ 4,844,000	\$ —	\$ 165,000	\$ 69,000	\$ 5,078,000
Services transferred over time	—	3,839,000	—	—	3,839,000
Total revenues before interest income	<u>\$ 4,844,000</u>	<u>\$ 3,839,000</u>	<u>\$ 165,000</u>	<u>\$ 69,000</u>	<u>\$ 8,917,000</u>

### Contract Balances

The following table provides information about accounts receivables, contract assets and contract liabilities from contracts with customers:

	June 30, 2019	October 1, 2018
Accounts receivables from contracts with customers	\$ 1,731,000	\$ 1,245,000
Contract assets	244,000	267,000
Contract liabilities	1,675,000	400,000

Accounts receivables from contracts with customers are included in “Accounts and other receivables, net of allowance for doubtful accounts,” and contract assets, which includes costs and estimated earnings in excess of billings and retainage, are included in “Other current assets.” Contract liabilities, which includes billings in excess of costs and estimated earnings are included in “Other current liabilities” in the accompanying Condensed Consolidated Balance Sheets.

Retainage, included in contract assets, represents amounts due from customers, but where payments are withheld contractually until certain construction milestones are met. Amounts retained typically range from 5% to 10% of the total invoice, up to contractually-specified maximums. The Company classifies as a current asset those retainages that are expected to be collected in the next twelve months.

Contract assets represent the Company’s rights to consideration in exchange for services transferred to a customer that have not been billed as of the reporting date. The Company’s rights are generally unconditional at the time its performance obligations are satisfied.

When the Company receives consideration, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a sales contract, the Company records deferred revenue, which represents a contract liability. Such deferred revenue typically results from billings in excess of costs and estimated earnings on uncompleted contracts. As of June 30, 2019,

the Company had \$1,675,000 included in “Other current liabilities” on the Condensed Consolidated Balance Sheets for those performance obligations expected to be completed in the next twelve months.

The change in contract assets and liabilities was due primarily to normal business operations. For the nine months ended June 30, 2019, the Company recognized revenue of \$25,000 that was previously included in the beginning balance of contract liabilities. Of the increase in contract liabilities, \$1,042,000 represents an advanced partial payment received from a contract drilling segment customer that was used by the Company to fund the acquisition of a new drilling rig and ancillary equipment for use on the subject contract. The new drilling rig and ancillary equipment are owned by the Company and will be freely available for use on other future jobs with other customers after completion of the subject contract.

Contracts are sometimes modified for a change in scope or other requirements. The Company considers contract modifications to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most of the Company’s contract modifications are for goods and services that are not distinct from the existing performance obligations. The effect of a contract modification on the transaction price, and the measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase or decrease) on a cumulative catchup basis.

The Company elected to utilize the modified retrospective transition practical expedient which allows the Company to evaluate the impact of contract modifications as of the adoption date rather than evaluating the impact of the modifications at the time they occurred prior to the adoption date. Given the nature of our typical contract modifications, which are generally limited to contract price change orders and extensions of time, the effect of the use of this practical expedient is not estimated to be significant.

### *Performance Obligations*

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in Topic 606. Performance obligations are satisfied as of a point in time or over time and are supported by contracts with customers.

The Company's contract drilling segment recognizes revenues over time. For most of the Company’s well drilling and pump installation and repair contracts, there are multiple promises of good or services. Typically, the Company provides a significant service of integrating a complex set of tasks and components such as site preparation, well drilling/pump installation, and testing for a project contract. The bundle of goods and services are provided to deliver one output for which the customer has contracted. In these cases, the Company considers the bundle of goods and services to be a single performance obligation. If the contract is separated into more than one performance obligation, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation.

For the oil and natural gas segment, revenues are recognized at a point in time and the performance obligation is considered satisfied when oil, natural gas and natural gas liquids are delivered and control has passed to the customer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the contractual delivery point. For the land investment segment, which recognizes revenues at a point in time, the performance obligation is considered satisfied when the contingent residual payment revenue recognition criteria has been met and we release any previously retained right to such contingent residual payment.

There are no significant or unusual payment terms related to Barnwell's oil and natural gas or land investment segments. For Barnwell's contract drilling segment, customer contracts determine payment terms which typically allow for progress payments and 5% to 10% retainage. For the contract drilling contracts, Barnwell typically serves as the principal and records related revenue and expenses on a gross basis. In the unusual circumstances where Barnwell acts as an agent, the related revenues and expenses are recognized on a net basis. Barnwell does not typically provide extended warranties on well drilling or pump contracts beyond the normal assurance-type warranties that the product complies with agreed upon specifications.

For oil and natural gas contracts, Barnwell evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if Barnwell retains control of the product being delivered to the end customer. As part of this assessment, management considers whether the Company retains the economic benefits associated with the good being delivered to the end customer. Management also considers whether the Company has the primary responsibility for the delivery of the product, the ability to establish prices or the inventory risk. If Barnwell acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by the Company from the transaction.

*Backlog* - The Company's remaining performance obligations for drilling and pump installation contracts (hereafter referred to as "backlog") represent the unrecognized revenue value of the Company's contract commitments. The Company's backlog may vary significantly each reporting period based on the timing of major new contract commitments. In addition, our customers have the right, under some infrequent circumstances, to terminate contracts or defer the timing of the Company's services and their payments to us. At June 30, 2019, nearly all of the Company's contract drilling segment contracts, for which revenues are recognized over time on a percentage-of-completion basis, have original expected durations of one year or less. For such contracts, the Company has elected the optional exemption from disclosure of remaining performance obligations allowed under ASC 606-10-50-14. The Company has three contract drilling jobs with original expected durations of greater than one year. For these contracts, approximately 55% of the remaining performance obligation of \$2,896,000 is expected to be recognized in the next twelve months and the remaining, thereafter.

### *Contract Fulfillment Costs*

In connection with the adoption of Topic 606, the Company is required to account for certain fulfillment costs over the life of the contract, consisting primarily of preconstruction costs such as set-up and mobilization costs. Preconstruction costs are capitalized and allocated across all performance obligations and deferred and amortized over the contract term on a progress towards completion basis.

As of June 30, 2019, the Company had \$336,000 in unamortized preconstruction costs related to contracts that were not completed. During the three and nine months ended June 30, 2019, the amortization of preconstruction costs related to contracts was \$80,000 and \$129,000, respectively. These amounts have been included in the accompanying Condensed Consolidated Statements of Operations. Additionally, no impairment charges in connection with the Company's preconstruction costs were recorded during the three and nine months ended June 30, 2019.

## 8. SEGMENT INFORMATION

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

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.

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
<b>Revenues:</b>				
Oil and natural gas	\$ 1,688,000	\$ 616,000	\$ 4,844,000	\$ 2,428,000
Contract drilling	1,689,000	1,193,000	3,839,000	3,051,000
Land investment	—	1,310,000	165,000	1,310,000
Other	15,000	3,000	69,000	73,000
Total before interest income	3,392,000	3,122,000	8,917,000	6,862,000
Interest income	17,000	46,000	50,000	137,000
Total revenues	\$ 3,409,000	\$ 3,168,000	\$ 8,967,000	\$ 6,999,000
<b>Depletion, depreciation, and amortization:</b>				
Oil and natural gas	\$ 639,000	\$ 121,000	\$ 2,072,000	\$ 477,000
Contract drilling	78,000	55,000	195,000	169,000
Other	14,000	11,000	41,000	48,000
Total depletion, depreciation, and amortization	\$ 731,000	\$ 187,000	\$ 2,308,000	\$ 694,000
<b>Impairment:</b>				
Oil and natural gas	\$ —	\$ —	\$ 2,413,000	\$ —
Land investment	—	—	—	37,000
Other	—	165,000	—	165,000
Total impairment	\$ —	\$ 165,000	\$ 2,413,000	\$ 202,000
<b>Operating (loss) profit (before general and administrative expenses):</b>				
Oil and natural gas	\$ (265,000)	\$ (49,000)	\$ (3,541,000)	\$ 174,000
Contract drilling	369,000	64,000	(145,000)	104,000
Land investment	—	1,310,000	165,000	1,273,000
Other	1,000	(173,000)	28,000	(140,000)
Gain on sales of assets	—	—	—	2,250,000
Total operating (loss) profit	105,000	1,152,000	(3,493,000)	3,661,000
<b>Equity in (loss) income of affiliates:</b>				
Land investment	(259,000)	136,000	(545,000)	(97,000)
General and administrative expenses	(1,352,000)	(1,591,000)	(4,361,000)	(4,635,000)
Interest expense	—	—	(4,000)	—
Interest income	17,000	46,000	50,000	137,000
Loss before income taxes	\$ (1,489,000)	\$ (257,000)	\$ (8,353,000)	\$ (934,000)

## 9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in each component of accumulated other comprehensive loss were as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
<b>Foreign currency translation:</b>				
Beginning accumulated foreign currency translation	\$ 642,000	\$ 866,000	\$ 925,000	\$ 1,053,000
Change in cumulative translation adjustment before reclassifications	89,000	(76,000)	(194,000)	(263,000)
Income taxes	—	—	—	—
Net current period other comprehensive income (loss)	89,000	(76,000)	(194,000)	(263,000)
Ending accumulated foreign currency translation	731,000	790,000	731,000	790,000
<b>Retirement plans:</b>				
Beginning accumulated retirement plans benefit cost	(1,406,000)	(2,048,000)	(1,439,000)	(2,111,000)
Amortization of net actuarial loss and prior service cost	9,000	30,000	42,000	93,000
Income taxes	—	—	—	—
Net current period other comprehensive income	9,000	30,000	42,000	93,000
Ending accumulated retirement plans benefit cost	(1,397,000)	(2,018,000)	(1,397,000)	(2,018,000)
Accumulated other comprehensive loss, net of taxes	\$ (666,000)	\$ (1,228,000)	\$ (666,000)	\$ (1,228,000)

The amortization of accumulated other comprehensive loss components for the retirement plans are included in the computation of net periodic benefit (income) cost which is a component of “General and administrative” expenses on the accompanying Condensed Consolidated Statements of Operations (see Note 5 for additional details).

## 10. FAIR VALUE MEASUREMENTS

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

### *Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

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

Barnwell estimates the fair value of asset retirement obligations based on the projected discounted future cash outflows required to settle abandonment and restoration liabilities. Such an estimate requires

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

## **11. INFORMATION RELATING TO THE CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine months ended June 30,	
	<u>2019</u>	<u>2018</u>
Supplemental disclosure of cash flow information:		
Cash paid (received) during the year for:		
Income taxes refunded, net	<u>\$ (2,298,000)</u>	<u>\$ (20,000)</u>
Supplemental disclosure of non-cash investing activities:		
Canadian income tax withholding on proceeds from the sale of oil and natural gas properties	<u>\$ —</u>	<u>\$ 789,000</u>

Capital expenditure accruals related to oil and natural gas exploration and development decreased \$93,000 and \$152,000 during the nine months ended June 30, 2019 and 2018, respectively. Additionally, capital expenditure accruals related to oil and natural gas asset retirement obligations increased \$95,000 during the nine months ended June 30, 2019 and decreased \$399,000 during the nine months ended June 30, 2018.

## **12. RELATED PARTY TRANSACTIONS**

Kaupulehu Developments is entitled to receive payments from the sales of lots and/or residential units by KD I and KD II. Through March 6, 2019, Kaupulehu Developments was also entitled to receive 50% of distributions otherwise payable from KD II to its members up to \$8,000,000, of which \$3,500,000 was received. KD I and KD II are part of the Kukio Resort Land Development Partnerships in which Barnwell holds indirect 19.6% and 10.8% non-controlling ownership interests, respectively, accounted for under the equity method of investment. The percentage of sales payments and percentage of distribution payments are part of transactions which took place in 2004 and 2006 where Kaupulehu Developments sold its leasehold interests in Increment I and Increment II to KD I's and KD II's predecessors in interest, respectively, which was prior to Barnwell's affiliation with KD I and KD II which commenced on November 27, 2013, the acquisition date of our ownership interest in the Kukio Resort Land Development Partnerships. Changes to the arrangement above, effective March 7, 2019, are discussed in Note 3.

During the nine months ended June 30, 2019, Barnwell received \$165,000 in percentage of sales payments from KD I from the sale of one lot within Increment I. During the nine months ended June 30, 2018, Barnwell received \$1,310,000 in payments, of which \$1,000,000 was related to the 50% of distributions otherwise payable from KD II to its members after the members of KD II received distributions equal to the original basis of capital invested in the project. The remaining \$310,000 in payments was due to percentage of sales payments from KD I from the sale of one lot within Increment I.

### **13. PROMISSORY NOTE RECEIVABLE**

On March 27, 2019, the Company made a \$300,000 loan to Mr. Terry Johnston, an affiliate of the Company through his controlling interests in certain entities within our land investment segment partnerships, and the Company was given an unsecured promissory note in return. The maturity date of the note is July 31, 2019, whereupon all principal and interest outstanding is due. Interest accrues at 8% per annum on the unpaid principal amount. In the event of default, the interest rate increases by 5%. The note includes a limited joinder that specifies that in the event of default, any fees otherwise due to Nearco, Inc., an entity controlled by Mr. Johnston, by Kaupulehu Developments may be applied to amounts due under the note. The note receivable was included in “Other current assets” in the Condensed Consolidated Balance Sheet as of June 30, 2019. Subsequent to June 30, 2019, the promissory note receivable, including accrued interest, was paid in full.

## **ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **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-Q, and the documents incorporated herein by reference, contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (“PSLRA”). A forward-looking statement is one which is based on current expectations of future events or conditions and does not relate to historical or current facts. These statements include various estimates, forecasts, projections of Barnwell’s future performance, statements of Barnwell’s plans and objectives, and other similar statements. All such statements we make are forward-looking statements made under the safe harbor of the PSLRA, except to the extent such statements relate to the operations of a partnership or limited liability company. Forward-looking statements include phrases such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “predicts,” “estimates,” “assumes,” “projects,” “may,” “will,” “will be,” “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. The risks, uncertainties and other factors that might cause actual results to differ materially from Barnwell’s expectations are set forth in the “Forward-Looking Statements” and “Risk Factors” sections of Barnwell’s Annual Report on Form 10-K for the year ended September 30, 2018. 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-Q, and Barnwell expressly disclaims any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein.*

### **Critical Accounting Policies and Estimates**

Management has determined that our most critical accounting policies and estimates are those related to the evaluation of recoverability of assets, depletion of our oil and natural gas properties, income taxes and asset retirement obligation which are discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018. There have been no significant changes to these critical accounting policies and estimates during the three and nine months ended June 30, 2019. We continue to monitor our accounting policies to ensure proper application of current rules and regulations.

### **Current Outlook**

Our ability to sustain our business in the future will depend on sufficient oil and natural gas operating cash flows, which are highly sensitive to potentially volatile oil and natural gas prices, sufficient future land investment segment proceeds and distributions from the Kukio Resort Land Development Partnerships, the timing of which are both highly uncertain and not within Barnwell’s control, and our ability to fund our needed oil and natural gas capital expenditures and the level of success of such capital expenditures, as well as our ability to fund oil and natural gas asset retirement obligations and ongoing operating and general and administrative expenses.

Management believes our current cash balances and estimated future revenues will be sufficient to fund the Company's estimated cash outflows for the next 12 months from the date of this report. The drilling of oil and natural gas wells to convert proved undeveloped reserves to proved producing reserves will need

to commence in order to work towards abatement of declining oil and natural gas cash flows from currently producing properties as those properties mature. Without sufficient oil and natural gas and land investment segments cash inflows, our ability to develop our recently acquired proved undeveloped reserves will be diminished. Management is seeking financing for the drilling of new wells in the next 12 months, particularly in the Twining area, however if we are unable to obtain such financing or if the financing is not obtained in sufficient time or is not of sufficient magnitude, and if our projected cash outflows for operating and general and administrative expenses continue to exceed our cash inflows because of low oil and natural gas prices or the absence of sufficient land investment segment proceeds and distributions, or if unforeseen circumstances arise that impair our ability to sustain or grow our business, the Company will need to consider further sales of our assets or alternative strategies or we may be forced to wind down our operations, either through liquidation or bankruptcy, and we may not be able to continue as a going concern beyond August 2020.

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

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases,” which seeks to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. Note 1 in the “Notes to Consolidated Financial Statements” describes the impact of ASU No. 2016-02 in further detail.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which replaces the incurred loss model with an expected loss model referred to as the current expected credit loss (“CECL”) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including but not limited to trade receivables. This ASU is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. The FASB has subsequently issued other related ASUs, which amend ASU 2016-13 to provide clarification and additional guidance. The Company is currently evaluating the impact of these standards, but does not believe they will have a material impact on Barnwell's consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, “Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income,” which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from TCJA. This ASU is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those annual periods, with early adoption permitted. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-09, “Codification Improvements,” which provides further clarification to the codification literature. The transition and effective date guidance is based on the facts and circumstances of each amendment within the ASU. Some of the amendments in the ASU do not require transition guidance and will be effective upon issuance of the ASU. Other amendments have transition guidance with effective dates for annual reporting periods beginning after December 15, 2018. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement: Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement,” which provides changes to certain fair value disclosure requirements. This ASU is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted.

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

In August 2018, the FASB issued ASU No. 2018-14, "Compensation - Retirement Benefits-Defined Benefit Plans - General: Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans," which provides changes to certain pension and postretirement plan disclosures. This ASU is effective for annual reporting periods ending after December 15, 2020, with early adoption permitted. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

In October 2018, the FASB issued ASU No. 2018-17, "Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities," which modifies the guidance related to indirect interests held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interest. This ASU is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The adoption of this update is not expected to have a material impact on Barnwell's consolidated financial statements.

## **Overview**

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

### *Oil and Natural Gas Segment*

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

### *Land Investment Segment*

The land investment segment is comprised of the following components:

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

- The right to receive percentage of sales payments from KD I resulting from the sale of single-family residential lots by KD I, within Increment I of the approximately 870 acres of the Kaupulehu Lot 4A area located in the North Kona District of the island of Hawaii. Kaupulehu Developments is entitled to receive payments from KD I based on the following percentages of the gross receipts from KD I's sales at Increment I: 10% of such aggregate gross proceeds greater than \$100,000,000 up to \$300,000,000; and 14% of such aggregate gross proceeds in excess of \$300,000,000. Increment I is an area zoned for approximately 80 single-family lots, of which 19 remained to be sold at June 30, 2019, and a beach club on the portion of the property bordering the Pacific Ocean.

- Prior to March 7, 2019, the right to receive percentage of sales payments from KD II resulting from the sale of lots and/or residential units by KD II, within Increment II of Kaupulehu Lot 4A. Increment II is the remaining portion of the approximately 870-acre property and is zoned for single-family and multi-family residential units and a golf course and clubhouse. Kaupulehu Developments was entitled to receive payments from KD II based on a percentage of the gross receipts from KD II's sales ranging from 8% to 10% of the price of improved or unimproved lots or 2.60% to 3.25% of the price of units constructed on a lot, to be determined in the future depending upon a number of variables, including whether the lots are sold prior to improvement. Kaupulehu Developments was also entitled to receive 50% of any future distributions otherwise payable from KD II to its members up to \$8,000,000, of which \$3,500,000 had been received. Two ocean front parcels approximately two to three acres in size fronting the ocean were developed and sold within Increment II by KD II, and Kaupulehu Developments received percentage of sales payments from those sales. The remaining acreage within Increment II is not yet developed. In February 2019, KD II was granted a 20-year time extension of the allowed zoning for the project that would have otherwise expired in April 2019.

As of March 7, 2019, with the admission of Replay as a new development partner of Increment II, the ownership interests in KD II of KDK and Replay were changed to 55% and 45%, respectively. Additionally, Kaupulehu Developments has the right to receive 15% of the distributions of KD II, the cost of which is to be solely borne by KDK out of its 55% ownership interest in KD II, plus a priority payout of 10% of KDK's cumulative net profits derived from Increment II sales subsequent to Phase 2A, up to a maximum of \$3,000,000. Such interests are limited to distributions or net profits interests and Barnwell does not have any partnership interest in KD II or KDK through its interest in Kaupulehu Developments. Barnwell also has rights to three single-family residential lots in Phase 2A of Increment II, and four single-family residential lots in phases subsequent to Phase 2A when such lots are developed by KD II, all at no cost to Barnwell. Barnwell is committed to commence construction of improvements within 90 days of the transfer of the four lots in the phases subsequent to Phase 2A as a condition of the transfer of such lots. Also, in addition to Barnwell's existing obligations to pay professional fees to certain parties based on percentages of its gross receipts, Kaupulehu Developments is now also obligated to pay an amount equal to 0.72% and 0.20% of the cumulative net profits of KD II to KD Development, LLC and a pool of various individuals, respectively, all of whom are partners of KKM and are unrelated to Barnwell, in compensation for the agreement of these parties to admit the new development partner for Increment II.

- Prior to March 7, 2019, we had an indirect 19.6% non-controlling ownership interest in KD Kukio Resorts, LLLP, KD Maniniowali, LLLP and KDK. As of March 7, 2019, with the admission of Replay as a new development partner of Increment II, we now have an indirect 10.8% non-controlling ownership interest in KD II through KDK. Our indirect interest in the other entities remains unchanged. 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. KDK was the developer of Kaupulehu Lot 4A Increments I and II. The partnerships derive income from the sale of residential parcels as well as from commission on real estate sales by the real estate sales office. KD I has engaged Replay as a consultant to assist with the sales and marketing strategy of Increment I. Replay does not have an ownership interest in KD I. As of June 30, 2019, 19 lots remained to be sold within Increment I.
- Approximately 1,000 acres of vacant leasehold land zoned conservation in the Kaupulehu Lot 4C area located adjacent to the 870-acre Lot 4A described above, which currently has no development potential without both a development agreement with the lessor and zoning reclassification.

2) Prior to February 2019, Barnwell owned an 80% interest in Kaupulehu 2007, LLLP (“Kaupulehu 2007”), a Hawaii limited liability limited partnership. In 2018, Kaupulehu 2007 sold the last residential parcel in the Kaupulehu Increment I area. The Kaupulehu 2007 partnership was terminated in February 2019.

### *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.

## **Results of Operations**

### *Summary*

Barnwell had a net loss of \$1,365,000 for the three months ended June 30, 2019, a \$991,000 decrease in operating results from net loss of \$374,000 for the three months ended June 30, 2018. The decrease was primarily due to \$1,310,000 in land investment segment revenues in the prior year quarter whereas there were none in the current year quarter.

Barnwell had a net loss of \$8,090,000 for the nine months ended June 30, 2019, a \$7,378,000 decrease in operating results from net loss of \$712,000 for the nine months ended June 30, 2018. The following factors affected the results of operations for the nine months ended June 30, 2019 as compared to the prior year period:

- A \$3,715,000 decrease in oil and natural gas segment operating results, before income taxes, primarily attributable to a \$2,413,000 ceiling test impairment due to lower 12-month rolling average first-day-of-the-month prices, with the remainder of the decrease primarily attributable to both lower oil prices and a higher depletion rate per unit in the current period, as compared to the same period in the prior year;
- A \$2,250,000 gain recognized in the prior year period primarily from the sale of oil properties in the Red Earth area;
- A \$1,108,000 decrease in land investment segment operating profit, before income taxes and non-controlling interests' share of such profits, due to a decrease in sales proceeds received as compared to the prior year period;
- A \$249,000 decrease in contract drilling operating results, before income taxes, primarily due to unforeseen difficulties encountered on two drilling jobs;
- A \$448,000 increase in equity in losses of affiliates as a result of decreased Kukio Resort Land Development Partnerships' lot sales revenues and real estate resale commission revenues; and
- The prior year period includes a \$460,000 income tax benefit due to the enactment of changes to U.S. federal income tax laws in December 2017, whereas there was no such benefit in the current period.

## 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. To date, we have not entered into foreign currency hedging transactions.

The average exchange rate of the Canadian dollar to the U.S. dollar decreased 3% and 4% in the three and nine months ended June 30, 2019, respectively, as compared to the same periods in the prior year. The exchange rate of the Canadian dollar to the U.S. dollar decreased 1% at June 30, 2019, as compared to September 30, 2018. Accordingly, the assets, liabilities, stockholders' equity and revenues and expenses of Barnwell's subsidiaries operating in Canada have been adjusted to reflect the change in the exchange rates. Barnwell's Canadian dollar assets are greater than its Canadian dollar liabilities; therefore, increases or decreases in the value of the Canadian dollar to the U.S. dollar generate other comprehensive income or loss, respectively. Other comprehensive income and losses are not included in net earnings (loss). Other comprehensive income due to foreign currency translation adjustments, net of taxes, for the three months ended June 30, 2019 was \$89,000, a \$165,000 change from other comprehensive loss due to foreign currency translation adjustments, net of taxes, of \$76,000 for the same period in the prior year. Other comprehensive loss due to foreign currency translation adjustments, net of taxes, for the nine months ended June 30, 2019 was \$194,000, a \$69,000 change from other comprehensive loss due to foreign currency translation adjustments, net of taxes, of \$263,000 for the same period in the prior year. There were no taxes on other comprehensive (loss) income due to foreign currency translation adjustments in the three and nine months ended June 30, 2019 and 2018 due to a full valuation allowance on the related deferred tax asset.

## Oil and Natural Gas

The following tables set forth Barnwell's average prices per unit of production and net production volumes. Production amounts reported are net of royalties.

	Average Price Per Unit			
	Three months ended		Increase	
	June 30,		(Decrease)	
	2019	2018	\$	%
Natural Gas (Mcf)*	\$ 0.87	\$ 0.72	\$ 0.15	21%
Oil (Bbls)**	\$ 52.56	\$ 55.20	\$ (2.64)	(5%)
Liquids (Bbls)**	\$ 23.40	\$ 44.00	\$ (20.60)	(47%)

	Average Price Per Unit			
	Nine months ended		Increase	
	June 30,		(Decrease)	
	2019	2018	\$	%
Natural Gas (Mcf)*	\$ 1.31	\$ 1.24	\$ 0.07	6%
Oil (Bbls)**	\$ 39.92	\$ 49.74	\$ (9.82)	(20%)
Liquids (Bbls)**	\$ 28.70	\$ 42.32	\$ (13.62)	(32%)

	Net Production			
	Three months ended		Increase	
	June 30,		(Decrease)	
	2019	2018	Units	%
Natural Gas (Mcf)*	170,000	67,000	103,000	154%
Oil (Bbls)**	27,000	10,000	17,000	170%
Liquids (Bbls)**	5,000	1,000	4,000	400%

	Net Production			
	Nine months ended		Increase	
	June 30,		(Decrease)	
	2019	2018	Units	%
Natural Gas (Mcf)*	481,000	220,000	261,000	119%
Oil (Bbls)**	95,000	41,000	54,000	132%
Liquids (Bbls)**	14,000	3,000	11,000	367%

\* Mcf = 1,000 cubic feet. Natural gas price per unit is net of pipeline charges.

\*\* Bbl = stock tank barrel equivalent to 42 U.S. gallons

The oil and natural gas segment generated a \$265,000 operating loss before general and administrative expenses in the three months ended June 30, 2019, a decrease in operating results of \$216,000 as compared to the \$49,000 operating loss before general and administrative expenses generated during the same period of the prior year. The oil and natural gas segment generated a \$3,541,000 operating loss before general and administrative expenses in the nine months ended June 30, 2019, a decrease in operating results of \$3,715,000 as compared to the \$174,000 operating profit before general and administrative expenses generated during the same period of the prior year. There was no ceiling test impairment during the three months ended June 30, 2019 and a \$2,413,000 ceiling test impairment included in the operating loss for the nine months ended June 30, 2019. There were no ceiling test impairments in the same periods of the prior year.

Oil and natural gas revenues increased \$1,072,000 (174%) and \$2,416,000 (100%) for the three and nine months ended June 30, 2019, respectively, as compared to the same periods in the prior year, primarily due to increased oil, natural gas and natural gas liquids production from the Twining property that was partially offset by decreases in oil and natural gas liquids prices as compared to the same periods in the prior year.

Oil and natural gas operating expenses increased \$770,000 (142%) and \$2,123,000 (119%) for the three and nine months ended June 30, 2019, respectively, as compared to the same periods in the prior year, primarily as a result of increased production as described above.

Oil and natural gas segment depletion increased \$518,000 (428%) and \$1,595,000 (334%), for the three and nine months ended June 30, 2019, respectively, as compared to the same periods in the prior year, primarily due to increases in both production and the depletion rate as a result of the acquisition of working interests in the Twining area in August 2018.

Although production increased in the current year periods due largely to the Twining area acquisition in August 2018, lower oil prices and the higher depletion rate per unit were the primary drivers of the decrease in operating results before ceiling test impairments and general and administrative expenses in the current year periods, as compared to the same periods in the prior year.

Oil prices received by the Company declined significantly in the quarter ended December 31, 2018, and averaged \$25.60 per barrel for those three months due to both the global decrease in oil prices during the period and the impact of significant pipeline and refinery capacity issues in the western Canadian oil markets which significantly impacted the prices received by the Company from its oil marketers for its oil production in the quarter ended December 31, 2018. On December 2, 2018, the Alberta government announced mandatory production cuts, effective January 1, 2019, for larger companies who produce over 10,000 barrels of oil per day. This mandate does not significantly impact Barnwell's oil production from operated and non-operated properties and is aimed at reducing the unfavorable differential between Canadian oil prices and the benchmark West Texas Intermediate price. Oil prices received by the Company in the six months following the January 1, 2019 mandatory production cuts averaged \$48.27 per barrel, reflecting more favorable global oil prices as well as the impact of the Alberta government's aforementioned actions. The Alberta government started phasing out this program reducing the production cuts beginning in February and has continued the phase-outs since then with the latest announcement easing the future curtailment limit for September 2019 production. The government's authority to limit production ends December 31, 2019.

On April 30, 2019, Trident Exploration Corp., the operator of certain of the Company's wells in the Wood River area, ceased operations. A receiver has been appointed and production from these wells remains shut-in. The timing of when these wells will re-commence operations is unknown. The Company's interest in these wells produced approximately \$55,000 in operating margin, defined as oil and natural gas revenues less oil and natural gas operating expenses, during the quarter ended March 31, 2019.

#### *Sale of Interest in Leasehold Land*

Kaupulehu Developments is entitled to receive percentage of sales payments from the sales of lots and/or residential units in Increment I by KD I. Prior to March 7, 2019, Kaupulehu Developments was also entitled to receive percentage of sales payments from the sales of lots and/or residential units in Increment II by KD II and entitled to receive 50% of any future distributions otherwise payable from KD II to its members up to \$8,000,000, of which \$3,500,000 was received. Effective March 7, 2019, Kaupulehu Developments' arrangements with regard to payments from the sales of lots and/or residential units in Increment II were changed, as detailed in the Overview section above.

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

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
<b>Sale of interest in leasehold land:</b>				
Revenues - sale of interest in leasehold land	\$ —	\$ 1,310,000	\$ 165,000	\$ 1,310,000
Fees - included in general and administrative expenses	—	(175,000)	(20,000)	(175,000)
Sale of interest in leasehold land, net of fees paid	\$ —	\$ 1,135,000	\$ 145,000	\$ 1,135,000

During the nine months ended June 30, 2019, Barnwell received \$165,000 in percentage of sales payments from KD I from the sale of one lot within Increment I. During the three and nine months ended June 30, 2018, Barnwell received a \$310,000 percentage of sales payment from KD I from the sale of one

lot within Increment I and \$1,000,000 from KD II which represented an amount equal to 50% of the distributions otherwise payable from KD II to its members after the members of KD II received distributions equal to the original basis of capital invested in the project.

As of June 30, 2019, 19 single-family lots of the 80 lots developed within Increment I remained to be sold. As discussed in the Overview section above, Replay was admitted as a new development partner of Increment II on March 7, 2019. The Company does not have a controlling interest in Increments I and II, and there is no assurance with regards to the amounts of future sales from Increments I and II.

### *Contract Drilling*

Contract drilling revenues increased \$496,000 (42%) and contract drilling costs increased \$168,000 (16%) for the three months ended June 30, 2019, as compared to the same period in the prior year. The contract drilling segment generated a \$369,000 operating profit before general and administrative expenses in the three months ended June 30, 2019, an increase in operating results of \$305,000 as compared to the \$64,000 operating profit generated during the same period of the prior year. The increase in operating results was due to a new well drilling job that is based on a fixed rate per day or fixed rate per hour, depending upon the activity, as opposed to the Company's typical contracts that are based on a fixed price per lineal foot drilled. Additionally, the contract for this new job include revenues from a contract payment that was used to fund the Company's purchase of a new drilling rig and ancillary equipment, which will be available for use on other future jobs with other customers after this contract is completed. Revenue from this contract payment is being recognized over the expected term of the contract based on the percentage-of-completion method. The increase was partially offset by a decrease in operating results due to unforeseen issues with pump testing equipment at another well drilling job.

Contract drilling revenues and contract drilling costs increased \$788,000 (26%) and \$1,011,000 (36%), respectively, for the nine months ended June 30, 2019, as compared to the same period in the prior year. The contract drilling segment generated a \$145,000 operating loss before general and administrative expenses in the nine months ended June 30, 2019, a decrease in operating results of \$249,000 as compared to the \$104,000 operating profit generated during the same period of the prior year. The decrease in operating results was due to unforeseen difficulties encountered on two jobs with unusually hard geological formations, which slowed progress on those jobs, and cementing and casing issues on one of those jobs due to unfavorable weather and geological formation issues as well as issues with pump testing equipment. The decrease was partially offset by the favorable impact of the new well drilling job discussed above.

Although the contract drilling segment continues to work on contracts in backlog, work on the new well drilling job discussed above was put on hold by the customer in July 2019 as the customer is awaiting the necessary regulatory approvals to proceed with further well drilling. The timing of when work will recommence is unknown.

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. The Company is unable to predict the near-term and long-term availability of water well drilling and pump installation and repair contracts as a result of volatility in demand.

### *General and Administrative Expenses*

General and administrative expenses decreased \$239,000 (15%) and \$274,000 (6%) for the three and nine months ended June 30, 2019, respectively, as compared to the same periods in the prior year. The decreases were due primarily to a decrease in professional fees related to land investment segment proceeds and a reduction in accrued bonus expense and directors' fees in the current year periods, as compared to the same periods in the prior year.

### *Depletion, Depreciation, and Amortization*

Depletion, depreciation, and amortization increased \$544,000 (291%) and \$1,614,000 (233%) for the three and nine months ended June 30, 2019, respectively, as compared to the same periods in the prior year, primarily due to the increase in oil and natural gas depletion as discussed in the "Oil and natural gas" section above.

### *Impairment of Assets*

Under the full cost method of accounting, the Company performs quarterly oil and natural gas ceiling test calculations. There was no ceiling test impairment during the three months ended June 30, 2019. There was a ceiling test impairment of \$2,413,000 during the nine months ended June 30, 2019 as a result of the December 31, 2018 and March 31, 2019 ceiling tests. There were no ceiling test impairments in the same periods of the prior year.

Changes in the 12-month rolling average first-day-of-the-month prices for oil, natural gas and natural gas liquids prices, the value of reserve additions as compared to the amount of capital expenditures to obtain them, and changes in production rates and estimated levels of reserves, future development costs and the market value of unproved properties, impact the determination of the maximum carrying value of oil and natural gas properties. Based on the 12-month rolling average first-day-of-the-month prices for July and August 2019, it is reasonably possible that we will incur a further ceiling test impairment in the Company's fourth quarter ending September 30, 2019. The Company is currently 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 actual results through the end of September 2019.

In addition, the ceiling test is also impacted by any changes in management's quarterly evaluation of the Company's ability to fund the approximately \$14,000,000 of future capital expenditures necessary over the next five years to develop the proved undeveloped reserves that are largely in the Twining area, the value of which is included in the calculation of the ceiling limitation. If facts, circumstances, estimates and assumptions underlying management's assessment of the Company's ability to fund such capital expenditures change such that it is no longer reasonably certain that all of the approximately \$14,000,000 of capital expenditures necessary to develop the proved undeveloped reserves can be made, it is likely that we will incur a further ceiling test impairment at that time.

In the nine months ended June 30, 2018, the Company recorded a \$37,000 impairment of its residential parcel held for sale. The parcel was sold in August 2018.

In May 2018, the Kilauea volcano on the island of Hawaii erupted in the district of Puna on the eastern part of the island. Lava flows subsequently covered all of the approximately sixteen acres of land in the district of Puna that Barnwell owns. As a result, Barnwell wrote off the entire \$165,000 carrying value of the sixteen acres during the three and nine months ended June 30, 2018.

### *Gain on Sales of Assets*

In February 2018, Barnwell sold its oil properties located in the Red Earth area of Alberta, Canada. As a result of the significant impact that the sale of Red Earth had on the relationship between capitalized costs and proved reserves of the sold property and retained properties, Barnwell did not credit the sales proceeds to the full cost pool, but instead calculated a gain on the sale of Red Earth of \$2,135,000 which was recognized in the nine months ended June 30, 2018, in accordance with the guidance in Rule 4-10(c)(6) (i) of Regulation S-X. Refer to the "Oil and Natural Gas Properties" section below for further information.

Also included in gain on sales of assets for the nine months ended June 30, 2018 is a \$115,000 gain on the sale of Barnwell's interest in natural gas transmission lines and related surface facilities in the Stolberg area in February 2018.

There were no such gains or losses on sales of operating assets recognized in the current year.

### *Equity in Loss of Affiliates*

Barnwell's investment in the Kukio Resort Land Development Partnerships is accounted for using the equity method of accounting. Barnwell was allocated partnership losses of \$259,000 during the three months ended June 30, 2019, as compared to allocated income of \$136,000 during the three months ended June 30, 2018. The allocated income for the three months ended June 30, 2018, was due to one lot sale in Increment I, whereas there were no lots sold during the three months ended June 30, 2019. In addition, the investee partnerships' real estate office commission income decreased due to a decrease in real estate resale activity in the current year period, as compared to the same period in the prior year.

Barnwell was allocated partnership losses of \$545,000 during the nine months ended June 30, 2019, as compared to an allocated loss of \$97,000 during the nine months ended June 30, 2018. The increase in the allocated partnership losses is due primarily to a decrease in both the investee partnerships' lot sales revenues and real estate office commission income due to a decrease in real estate resale activity in the current year period, as compared to the same period in the prior year.

### *Income Taxes*

Barnwell's effective consolidated income tax benefit rate for the three and nine months ended June 30, 2019, after adjusting loss before income taxes for non-controlling interests, was 6% and 3%, respectively, as compared to an effective income tax benefit rate of 30% and 40% for the three and nine months ended June 30, 2018, respectively.

Consolidated taxes do not bear a customary relationship to pretax results due primarily to the fact that the Company is taxed separately in Canada based on Canadian source operations and in the U.S. based on consolidated operations, and essentially all deferred tax assets, net of relevant offsetting deferred tax liabilities and any amounts estimated to be realizable through tax carryback strategies, are not estimated to have a future benefit as tax credits or deductions. Income from our non-controlling interest in the Kukio Resort Land Development Partnerships is treated as non-unitary for state of Hawaii unitary filing purposes, thus unitary Hawaii losses provide limited sheltering of such non-unitary income.

In the three months ended June 30, 2019, the Government of Alberta reduced its corporate income tax rate from 12% to 11%, effective July 1, 2019, with further reductions in the rate by 1% on January 1 of

every year until it reaches 8% on January 1, 2022. Because our Canadian operations are currently generating losses and net Canadian deferred tax assets have a full valuation allowance, the reduction in rates had no financial statement impact.

The repeal of the corporate Alternative Minimum Tax (“AMT”) by the Tax Cuts and Jobs Act (“TCJA”), enacted on December 22, 2017, provides a mechanism for the refund over time of any unused AMT credit carryovers. Prior to the enactment of the TCJA, it was not more likely than not that the Company’s AMT credit carryovers would provide a future benefit, as such the AMT deferred tax asset had a full valuation allowance. As a result of the TCJA provision for refundability of the AMT, the Company recorded a current income tax benefit of \$460,000 in the quarter ended December 31, 2017.

#### *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 loss attributable to non-controlling interests totaled \$33,000 and \$32,000 for the three and nine months ended June 30, 2019, respectively, as compared to net earnings attributable to non-controlling interests of \$280,000 and \$247,000, for the same periods in the prior year. The change of \$313,000 (112%) and \$279,000 (113%) for the three and nine months, respectively, is primarily due to the decrease in percentage of sales proceeds received in the current year periods as compared to the same periods in the prior year.

#### **Liquidity and Capital Resources**

At June 30, 2019, Barnwell had \$4,335,000 in working capital, which included \$5,035,000 in cash.

#### *Cash Flows*

Cash flows used in operations totaled \$1,631,000 for the nine months ended June 30, 2019, as compared to cash flows used in operations of \$4,321,000 for the same period in the prior year. The \$2,690,000 change in operating cash flows for the nine months ended June 30, 2019, as compared to the prior year, was due to a \$2,301,000 increase in cash flows from operations due to changes in working capital, primarily attributable to the collection of Canadian income tax refunds and an advance received for a contract drilling segment job.

Cash flows provided by investing activities totaled \$802,000 during the nine months ended June 30, 2019, as compared to cash flows provided by investing activities of \$2,482,000 during the same period of the prior year. The \$1,680,000 decrease in cash flows provided by investing activities was primarily due to a \$692,000 increase in capital expenditures in the current year period, primarily related to the acquisition of a new contract drilling segment water well drilling rig and ancillary equipment, and an \$805,000 decrease in proceeds from sales of leasehold land interests.

Net cash used in financing activities totaled \$110,000 for the nine months ended June 30, 2019, as compared to \$594,000 during the same period of the prior year. The \$484,000 change in financing cash flows was due to a decrease in distributions to non-controlling interests in the current year period as compared to the prior year period.

## *Capital Expenditures*

Barnwell's oil and natural gas capital expenditures, including accrued capital expenditures and excluding acquisitions and additions and revisions to estimated asset retirement obligations, were not significant for the three and nine months ended June 30, 2019, as compared to \$121,000 and \$321,000 for the same periods in the prior year. Barnwell also invested \$733,000 and \$1,221,000 in the three and nine months ended June 30, 2019, respectively, for other capital expenditures consisting primarily of contract drilling equipment.

Barnwell estimates that capital expenditures for the development of our oil and natural gas properties for the remainder of fiscal 2019, excluding additions and revisions to estimated asset retirement obligations, will be approximately \$1,300,000 for the commencement of the drilling of its first horizontal well at its Twining property in Alberta, Canada. The subsequent completion and pipeline construction costs, estimated to be approximately \$1,400,000, are expected to be incurred in the first quarter of fiscal 2020, the quarter ending December 31, 2019, and are subject to market conditions and contingent on financing that is yet to be secured. The Company also plans to participate in the drilling of another oil well for approximately \$600,000 at Spirit River, Alberta, Canada, in the first quarter of fiscal 2020. These estimates may change as dictated by management's assessment of the oil and natural gas environment and prospects.

## *Oil and Natural Gas Property Acquisitions and Dispositions*

### *Fiscal 2018 Dispositions*

In October 2017, Barnwell entered into a Purchase and Sale Agreement with an independent third party and sold its oil and natural gas properties located in the Pouce Coupe area of Alberta, Canada. The sales price per the agreement was adjusted to \$79,000 for customary purchase price adjustments to reflect the economic activity from the effective date of May 1, 2017 to the closing date. From Barnwell's net proceeds, \$37,000 was withheld and remitted by the buyer to the Canada Revenue Agency for potential amounts due for Barnwell's Canadian income taxes.

In February 2018, Barnwell sold its oil properties located in the Red Earth area of Alberta, Canada to two separate independent third parties. The sales prices per the agreements were adjusted for customary purchase price adjustments to reflect the economic activity from the effective date of October 1, 2017 to the closing date, for a combined adjusted sales price of \$1,367,000. Barnwell recorded a gain on the sale of Red Earth of \$2,135,000 in the nine months ended June 30, 2018, which included asset retirement obligations of \$1,666,000 assumed by the purchaser. From Barnwell's net proceeds, \$752,000 was withheld and remitted by the buyer to the Canada Revenue Agency for potential amounts due for Barnwell's Canadian income taxes.

In February 2018, Barnwell also sold its interests in natural gas transmission lines and related surface facilities in the Stolberg area of Alberta, Canada, for \$118,000, and we recognized a \$115,000 gain on the sale in the nine months ended June 30, 2018.

### *Fiscal 2019 Acquisitions*

During the quarter ended December 31, 2018, Barnwell acquired additional working interests in oil and natural gas properties located in the Wood River and Twining areas of Alberta, Canada for cash consideration of \$355,000. The purchase prices per the agreements were adjusted for customary purchase price adjustments to reflect the economic activity from the effective date to the closing date. The customary

adjustments to the purchase prices were finalized during the quarter ended June 30, 2019, and resulted in an immaterial adjustment.

#### *Asset Retirement Obligation*

In April 2019, Barnwell was notified by the Alberta Energy Regulator (“AER”) that the AER is preparing an abandonment order for certain of the Company's non-producing wells in the Manyberries area which will either direct owners to abandon wells or apply for the transfer of the wells to the AER, and asked for confirmation of Barnwell’s working interests in wells in the Manyberries area. Currently the timing and amount of any required cash outflows for Barnwell’s portion of an AER order pertaining to wells at the Manyberries area is unknown. Of the wells listed by the AER, Barnwell has working interests in approximately 84 gross (9.4 net wells). The estimated asset retirement obligation for all of the Company's wells in the Manyberries area is included in “Asset retirement obligation” in the Condensed Consolidated Balance Sheets.

### **ITEM 4. 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 June 30, 2019, 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 June 30, 2019 to ensure that information required to be disclosed by Barnwell in the 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.

#### *Changes in Internal Control Over Financial Reporting*

There was no change in Barnwell’s internal control over financial reporting during the quarter ended June 30, 2019 that materially affected, or is reasonably likely to materially affect, Barnwell’s internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 6. EXHIBITS

Exhibit Number	Description
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
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

**SIGNATURE**

Pursuant to the requirements 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)

Date: August 13, 2019

/s/ Russell M. Gifford  
\_\_\_\_\_  
Russell M. Gifford  
Chief Financial Officer,  
Executive Vice President,  
Treasurer and Secretary

## INDEX TO EXHIBITS

Exhibit Number	Description
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## Certifications

I, Alexander C. Kinzler, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 13, 2019

/s/ Alexander C. Kinzler  
Alexander C. Kinzler  
President, Chief Executive Officer, Chief  
Operating Officer, General Counsel

## Certifications

I, Russell M. Gifford, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 13, 2019

/s/ Russell M. Gifford  
\_\_\_\_\_  
Russell M. Gifford  
Executive Vice President, Chief Financial  
Officer

**Barnwell Industries, Inc.**

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

In connection with the Quarterly Report of Barnwell Industries, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2019 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned officers of the Company does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 13, 2019

/s/ Alexander C. Kinzler

Alexander C. Kinzler

Title: President, Chief Executive Officer, Chief Operating Officer, General Counsel

Dated: August 13, 2019

/s/ Russell M. Gifford

Name: Russell M. Gifford

Title: Executive Vice President, 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-Q 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.