

BARNWELL INDUSTRIES INC  
Form 10-K  
December 16, 2015

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

(Mark One)

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

For the fiscal year ended September 30, 2015  
or

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

Commission File Number 1-5103

BARNWELL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

72-0496921

(State or other jurisdiction of incorporation or organization)

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

1100 Alakea Street, Suite 2900, Honolulu, Hawaii

96813-2833

(Address of principal executive offices)

(Zip code)

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

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

Title of each class

Name of each exchange on which registered

Common Stock, par value \$0.50 per share

NYSE MKT

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

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of a share of common stock on March 31, 2015 (the last business day of the registrant's most recently completed second fiscal quarter) was \$9,803,000.

As of December 1, 2015 there were 8,277,160 shares of common stock outstanding.

Documents Incorporated by Reference

1. Proxy statement to be forwarded to stockholders on or about January 21, 2016 is incorporated by reference in Part III hereof.

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## GLOSSARY OF TERMS

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

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

PART I

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

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

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

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

ITEM 1. BUSINESS

Overview

Barnwell was incorporated in Delaware in 1956 and fiscal 2015 represented Barnwell's 59th year of operations. Barnwell operates in the following four principal business segments:

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

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

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

**Residential Real Estate Segment** - Barnwell develops homes for sale in Hawaii.

Oil and Natural Gas Segment

Overview

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

Operations

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

All acquisition and developmental operations are overseen by Barnwell's Calgary, Alberta staff and Barnwell's Chief Operating Officer located in Honolulu, along with senior management. In fiscal 2015, Barnwell participated in acquisition and developmental operations in Alberta, although Barnwell does not limit its consideration of acquisition and developmental operations to this area.

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

Our oil and natural gas segment revenues, profitability, and future rate of growth are dependent on oil and natural gas prices. The industry has experienced a significant decline in oil and natural gas prices that has negatively impacted our operating results, cash flows and liquidity. Credit and capital markets for oil



and natural gas companies have been negatively affected as well, resulting in a decline in sources of financing as compared to previous years.

In September 2015, Barnwell sold its interests in its principal oil and natural gas properties located in the Dunvegan and Belloy areas of Alberta, Canada. Barnwell's net proceeds from the sale, after broker's fees and other closing costs, were \$14,162,000 of which \$7,135,000 was withheld in an escrow account for the Canada Revenue Agency for potential amounts due for Barnwell's Canadian income taxes related to the sale. Management believes all necessary Canadian income taxes related to the sale have been paid as of September 30, 2015, however the sufficiency of Canadian income taxes paid and the precise timing for and amount of the release of the funds held in escrow to Barnwell cannot be determined until formal determination by the Canada Revenue Agency.

As a result of the disposition, Barnwell's revolving credit facility at Royal Bank of Canada was amended to decrease the amount of the borrowing capacity from \$6,500,000 Canadian dollars to \$1,000,000 Canadian dollars, or U.S. \$747,000 at the September 30, 2015 exchange rate.

The sale of Dunvegan resulted in a 60% decrease in our proved natural gas reserves and a 34% decrease in our proved oil and natural gas liquids reserves. In fiscal 2015, Dunvegan accounted for 74% of our net natural gas production and 44% of our net oil and natural gas liquids production, and contributed 46% of our total oil and natural gas revenues.

The proceeds received upon closing were used for Canadian income tax payments and repayment of the \$4,800,000 previously outstanding on the Canadian revolving credit facility. We intend to identify, assess and acquire additional acreage and producing assets to access new drilling and recompletion opportunities, however, the timing and amount of any future re-investment of the Dunvegan proceeds is dependent on the release of the proceeds currently held in escrow and the need to fund ongoing operating and general and administrative expenses and asset retirement obligations, in which case some or all of such proceeds would not be reinvested.

#### Preparation of Reserve Estimates

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

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

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



a manner consistent with applicable standards. The Reserves Committee meets annually to discuss reserve issues and policies and to meet with Company personnel and the independent petroleum reserve engineers.

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

#### Reserves

The amounts set forth in the following table, based on InSite's evaluation of our reserves, summarize our estimated proved reserves of oil (including natural gas liquids) and natural gas as of September 30, 2015 on all properties in which Barnwell has an interest. All of Barnwell's proved reserves are developed; Barnwell has no proved undeveloped reserves as of September 30, 2015. All of our oil and natural gas reserves are located in Canada. These reserves are before deductions for indebtedness secured by the properties and are based on constant dollars. No estimates of total proved net oil or natural gas reserves have been filed with, or included in reports to, any federal authority or agency, other than the SEC, since October 1, 2014.

	September 30, 2015
Oil, including natural gas liquids (Bbls)	469,000
Natural gas (Mcf)	3,124,000
Total (Boe)	1,008,000

During fiscal 2015, Barnwell's total net proved developed reserves of oil and natural gas liquids decreased by 255,000 Bbls (35%) and total net proved developed reserves of natural gas decreased by 6,341,000 Mcf (67%). The decreases were primarily the result of the disposition of Dunvegan in fiscal 2015, and, to a lesser extent, from production in fiscal 2015.

The following table sets forth Barnwell's oil and natural gas net reserves at September 30, 2015, by property name, based on information prepared by InSite, as well as net production and net revenues by property name for the year ended September 30, 2015. This table is based on constant dollars where reserve estimates are based on sales prices, costs and statutory tax rates in existence at September 30, 2015, the date of the projection.

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Property Name	As of September 30, 2015				For the year ended September 30, 2015			
	Net Proved Producing Reserves		Total Net Proved Reserves		Net Production		Net Revenues	
	Oil & NGL (MBbls)	Gas (MMcf)	Oil & NGL (MBbls)	Gas (MMcf)	Oil & NGL (Bbls)	Gas (Mcf)	Oil & NGL	Gas
Dunvegan (1)	—	—	—	—	63,000	1,246,000	\$ 1,124,000	\$ 3,058,000
Progress	62	604	105	1,449	6,000			