

BARNWELL INDUSTRIES INC  
Form 10-K/A  
April 08, 2009

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-K/A

(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, 2008**

or

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

**Commission File Number 1-5103**

## **BARNWELL INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**72-0496921**

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

**1100 Alakea Street, Suite 2900, Honolulu, Hawaii**

(Address of principal executive offices)

**96813-2833**

(Zip code)

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

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

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**Title of each class**  
Common Stock, par value \$0.50 per share

**Name of each exchange on which registered**  
NYSE Amex

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes  No

The aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of a share of common stock on March 31, 2008 (the last business day of the registrant's most recently completed second fiscal quarter) was \$49,978,000.

As of December 4, 2008 there were 8,240,160 shares of common stock outstanding.

Documents Incorporated by Reference

1. Proxy statement to be forwarded to stockholders on or about January 15, 2009 is incorporated by reference in Part III hereof
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**Explanatory Note**

**Amendment No. 1**

This Amendment No. 1 on Form 10-K/A (this Amendment) amends Barnwell's Annual Report on Form 10-K for the year ended September 30, 2008, which Barnwell previously filed with the Securities and Exchange Commission (the SEC) on December 18, 2008 (the Original Report). We are filing this Amendment in response to a comment we received from the staff of the Division of Corporation Finance of the SEC in connection with the staff's review of the Original Report.

In preparing the Annual Report on Form 10-K for the fiscal year ended September 30, 2008, the Company followed the SEC's guidance for smaller reporting companies set forth in Release Nos. 33-8876; 34-56994; and 39-2451. Under Item 302(b) of Regulation S-K, registrants engaged in oil and gas producing activities are required to present the information about oil and gas producing activities specified in paragraphs 9 through 34 of SFAS No. 69. However, Item 302(c) of Regulation S-K goes on to state that a registrant that qualifies as a smaller reporting company is not required to provide the information required by Item 302. As a smaller reporting company, Barnwell therefore did not provide the SFAS No. 69 disclosures in its Original Report.

In the Original Report, Barnwell provided disclosure of a number of the items required to be disclosed under SFAS No. 69 elsewhere in the Form 10-K including the net quantities of our interests in proved producing and total proved oil and natural gas reserves; changes in the net quantities of proved reserves of oil and natural gas during the year; oil and natural gas total capitalized costs and aggregate related accumulated depreciation and depletion; total oil and natural gas capital expenditures for fiscal 2008; oil and natural gas revenues, production costs, depreciation and depletion, and pre-tax results of operations; and the present value (discounted at 10%) of our estimated future net revenues from total proved oil, natural gas and natural gas liquids reserves.

Pursuant to a comment received by the SEC staff wherein the SEC staff acknowledged Barnwell's interpretation of the regulations and notwithstanding Item 302(c) of Regulation S-K, Barnwell is filing this Amendment solely to incorporate the supplementary oil and natural gas information disclosures required under SFAS No. 69 in Note 21 of the Notes to Consolidated Financial Statements. As such, Item 8 - Financial Statements and Supplementary Data of this Form 10-K/A has been revised to include Note 21.

No other changes to the Original Report are included in this Amendment other than to provide currently-dated Exhibit Nos. 31.1, 31.2, and 32. Furthermore, this Form 10-K/A does not reflect events occurring after the filing of the Original Report. Accordingly, this Amendment should be read in conjunction with the Original Report and our other filings with the SEC subsequent to the filing of the Original Report.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors  
Barnwell Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Barnwell Industries, Inc. and subsidiaries as of September 30, 2008 and 2007, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barnwell Industries, Inc. and subsidiaries as of September 30, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period then ended in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Honolulu, Hawaii

December 18, 2008

## BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

|  | September 30,         |                       |
|--|-----------------------|-----------------------|
|  | 2008                  | 2007                  |
| <b>ASSETS</b>  |                       |                       |
| <b>CURRENT ASSETS:</b>   |                       |                       |
| Cash and cash equivalents  | \$ 13,618,000         | \$ 10,107,000         |
| Accounts receivable, net of allowance for doubtful accounts of: \$1,078,000 at September 30, 2008 and \$20,000 at September 30, 2007                       | 7,524,000             | 7,131,000             |
| Deferred income taxes  | 2,134,000             | 2,171,000             |
| Current taxes receivable   | 975,000               | 1,040,000             |
| Other current assets   | 1,411,000             | 1,030,000             |
| <b>TOTAL CURRENT ASSETS</b>  | <b>25,662,000</b>     | <b>21,479,000</b>     |
| DEPOSITS ON RESIDENTIAL PARCELS  | 200,000               | 800,000               |
| RESIDENTIAL LOTS UNDER DEVELOPMENT   | 8,876,000             | 5,009,000             |
| INVESTMENT IN RESIDENTIAL PARCELS  | 4,708,000             | 2,383,000             |
| INVESTMENT IN JOINT VENTURES   | 2,776,000             | 2,765,000             |
| INVESTMENT IN LAND INTERESTS   | 1,450,000             | 1,450,000             |
| PROPERTY AND EQUIPMENT, NET  | 88,690,000            | 90,679,000            |
| <b>TOTAL ASSETS</b>  | <b>\$ 132,362,000</b> | <b>\$ 124,565,000</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                       |                       |
| <b>CURRENT LIABILITIES:</b>  |                       |                       |
| Accounts payable   | \$ 6,516,000          | \$ 5,983,000          |
| Accrued capital expenditures   | 3,071,000             | 2,774,000             |
| Accrued stock appreciation rights  | 785,000               | 1,672,000             |
| Accrued incentive plan costs   | 1,587,000             | 2,029,000             |
| Other accrued compensation costs   | 3,481,000             | 3,228,000             |
| Drilling advances  | 403,000               | 1,407,000             |
| Payable to joint interest owners   | 1,581,000             | 1,123,000             |
| Income taxes payable   | 3,506,000             |                       |
| Current portion of long-term debt  |                       | 354,000               |
| Other current liabilities  | 1,903,000             | 2,160,000             |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>22,833,000</b>     | <b>20,730,000</b>     |
| LONG-TERM DEBT   | 26,217,000            | 22,104,000            |
| LIABILITY FOR RETIREMENT BENEFITS  | 2,041,000             | 2,387,000             |
| ASSET RETIREMENT OBLIGATION  | 4,565,000             | 4,734,000             |
| DEFERRED INCOME TAXES  | 14,375,000            | 19,299,000            |
| MINORITY INTEREST  | 1,067,000             | 707,000               |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                       |                       |
| <b>STOCKHOLDERS EQUITY:</b>  |                       |                       |
| Common stock, par value \$0.50 per share; Authorized, 20,000,000 shares:<br>8,403,060 issued at September 30, 2008, 8,280,060 issued at September 30, 2007 | 4,202,000             | 4,140,000             |
| Additional paid-in capital   | 1,222,000             | 738,000               |
| Retained earnings  | 54,862,000            | 44,988,000            |
| Accumulated other comprehensive income, net  | 3,143,000             | 4,933,000             |
| Treasury stock, at cost:<br>150,200 shares at September 30, 2008, 11,900 shares at September 30, 2007  | (2,165,000)           | (195,000)             |
| <b>TOTAL STOCKHOLDERS EQUITY</b>   | <b>61,264,000</b>     | <b>54,604,000</b>     |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>   | <b>\$ 132,362,000</b> | <b>\$ 124,565,000</b> |

See Notes to Consolidated Financial Statements



## BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS

|  | Year ended September 30, |                     |                      |
|--|--------------------------|---------------------|----------------------|
|  | 2008                     | 2007                | 2006                 |
| <b>Revenues:</b>   |                          |                     |                      |
| Oil and natural gas  | \$ 49,441,000            | \$ 34,599,000       | \$ 37,904,000        |
| Contract drilling  | 9,787,000                | 5,993,000           | 5,866,000            |
| Sale of interest in leasehold land, net                                      | 446,000                  | 3,370,000           | 9,637,000            |
| Sale of development rights, net  | 4,161,000                | 2,292,000           | 2,702,000            |
| Gas processing and other   | 1,809,000                | 1,182,000           | 1,151,000            |
| Gain on sale of drill rig  |                          |                     | 700,000              |
|  | <b>65,644,000</b>        | 47,436,000          | 57,960,000           |
| <b>Costs and expenses:</b>   |                          |                     |                      |
| Oil and natural gas operating  | 10,581,000               | 10,203,000          | 8,217,000            |
| Contract drilling operating  | 7,684,000                | 4,939,000           | 4,709,000            |
| General and administrative   | 12,497,000               | 10,457,000          | 11,644,000           |
| Bad debt expense   | 1,091,000                |                     |                      |
| Depreciation, depletion and amortization                                     | 14,726,000               | 13,174,000          | 11,577,000           |
| Interest expense, net  | 1,043,000                | 999,000             | 833,000              |
| Minority interest in earnings  | 1,006,000                | 988,000             | 2,783,000            |
|  | <b>48,628,000</b>        | 40,760,000          | 39,763,000           |
| Earnings before income taxes and equity in earnings of real estate affiliate | 17,016,000               | 6,676,000           | 18,197,000           |
| Income tax provision   | (5,284,000)              | (3,160,000)         | (4,455,000)          |
| Equity in earnings of real estate affiliate, net of tax                      |                          |                     | 895,000              |
| <b>NET EARNINGS</b>  | <b>\$ 11,732,000</b>     | <b>\$ 3,516,000</b> | <b>\$ 14,637,000</b> |
| <b>BASIC NET EARNINGS PER COMMON SHARE</b>                                   | <b>\$ 1.42</b>           | <b>\$ 0.43</b>      | <b>\$ 1.79</b>       |
| <b>DILUTED NET EARNINGS PER COMMON SHARE</b>                                 | <b>\$ 1.39</b>           | <b>\$ 0.41</b>      | <b>\$ 1.68</b>       |
| <b>WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:</b>                 |                          |                     |                      |
| <b>BASIC</b>   | <b>8,248,581</b>         | 8,208,189           | 8,169,060            |
| <b>DILUTED</b>   | <b>8,438,914</b>         | 8,608,759           | 8,698,405            |

See Notes to Consolidated Financial Statements



## BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year ended September 30, |              |               |
|---|--------------------------|--------------|---------------|
|   | 2008                     | 2007         | 2006          |
| Cash flows from operating activities:   |                          |              |               |
| Net earnings  | \$ 11,732,000            | \$ 3,516,000 | \$ 14,637,000 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                          |              |               |
| Depreciation, depletion and amortization  | 14,726,000               | 13,174,000   | 11,577,000    |
| Bad debt expense  | 1,091,000                |              |               |
| Minority interest in earnings   | 1,006,000                | 988,000      | 2,783,000     |
| Retirement benefits expense   | 528,000                  | 511,000      | 394,000       |
| Accretion of asset retirement obligation  | 314,000                  | 232,000      | 199,000       |
| Gain on sale of drill rig   |                          |              | (700,000)     |
| Asset retirement obligation payments  | (48,000)                 | (42,000)     | (20,000)      |
| Share-based compensation (benefit) expense  | (402,000)                | 462,000      | 583,000       |
| Retirement benefits contribution  | (456,000)                | (250,000)    | (1,050,000)   |
| Share-based compensation payments   | (458,000)                | (2,024,000)  | (1,649,000)   |
| Deferred income tax (benefit) expense   | (2,404,000)              | 1,456,000    | 1,162,000     |
| Additions to residential lots under development                                     | (3,277,000)              | (4,868,000)  |               |
| Sale of interest in leasehold land, net   | (446,000)                | (3,370,000)  | (9,637,000)   |
| Sale of development rights, net   | (4,161,000)              | (2,292,000)  | (2,702,000)   |
| Increase from changes in current assets and liabilities                             | 695,000                  | 1,299,000    | 2,552,000     |
| Net cash provided by operating activities   | 18,440,000               | 8,792,000    | 18,129,000    |
| Cash flows from investing activities:   |                          |              |               |
| Proceeds from sale of development rights, net of fees paid                          | 4,161,000                | 2,292,000    | 2,702,000     |
| Proceeds from sale of interest in leasehold land, net of fees paid                  | 1,111,000                | 3,370,000    | 12,620,000    |
| Refund of deposits on residential parcels   | 400,000                  |              |               |
| Proceeds from gas over bitumen royalty adjustments                                  | 259,000                  | 248,000      | 347,000       |
| Return of capital distribution from joint venture                                   |                          | 525,000      |               |
| Proceeds from matured certificates of deposit                                       |                          |              | 1,700,000     |
| Proceeds from sale of drill rig   |                          |              | 712,000       |
| Deposits on residential parcels   |                          | (800,000)    |               |
| Purchase of lot acquisition rights  |                          | (1,400,000)  |               |
| Investment in joint ventures  | (11,000)                 | (3,290,000)  |               |
| Additions to investment in residential parcels                                      | (279,000)                | (2,383,000)  |               |
| Capital expenditures  | (17,678,000)             | (16,597,000) | (25,385,000)  |
| Net cash used in investing activities   | (12,037,000)             | (18,035,000) | (7,304,000)   |
| Cash flows from financing activities:   |                          |              |               |
| Proceeds from long-term debt borrowings   | 3,594,000                | 9,486,000    |               |
| Proceeds from exercise of stock options   | 241,000                  | 329,000      |               |
| Contributions from minority interest partner  | 4,000                    | 751,000      |               |
| Payment of loan commitment fee  | (100,000)                |              |               |
| Distributions to minority interest partners   | (1,033,000)              | (1,032,000)  | (3,095,000)   |
| Repayments of long-term debt  | (1,460,000)              | (52,000)     |               |
| Payment of dividends  | (1,858,000)              | (2,052,000)  | (1,430,000)   |
| Purchases of common stock for treasury  | (1,892,000)              | (155,000)    |               |
| Net cash (used in) provided by financing activities                                 | (2,504,000)              | 7,275,000    | (4,525,000)   |
| Effect of exchange rate changes on cash and cash equivalents                        | (388,000)                | 103,000      | 180,000       |
| Net increase (decrease) in cash and cash equivalents                                | 3,511,000                | (1,865,000)  | 6,480,000     |

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|  |                      |                      |                      |
|--|----------------------|----------------------|----------------------|
| Cash and cash equivalents at beginning of year | <b>10,107,000</b>    | 11,972,000           | 5,492,000            |
| Cash and cash equivalents at end of year       | <b>\$ 13,618,000</b> | <b>\$ 10,107,000</b> | <b>\$ 11,972,000</b> |

See Notes to Consolidated Financial Statements

## BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

Years ended September 30, 2006, 2007 and 2008

|   | Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-In<br>Capital | Comprehensive<br>Income | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock | Total<br>Stockholders<br>Equity |
|---|-----------------------|-----------------|----------------------------------|-------------------------|----------------------|---|-------------------|---------------------------------|
| <b>Balance at September 30, 2005</b>                                | 8,169,060             | \$ 4,085,000    | \$                               |                         | \$ 30,317,000        | \$ 1,624,000                                    | \$                | \$ 36,026,000                   |
| Share-based compensation costs                                      |                       |                 | 144,000                          |                         |                      |   |                   | 144,000                         |
| Dividends declared, \$0.175 per share                               |                       |                 |                                  |                         | (1,430,000)          |   |                   | (1,430,000)                     |
| Comprehensive income:   |                       |                 |                                  |                         |                      |   |                   |                                 |
| Net earnings  |                       |                 |                                  | \$ 14,637,000           | 14,637,000           |   |                   | 14,637,000                      |
| Other comprehensive income:   |                       |                 |                                  |                         |                      |   |                   |                                 |
| Foreign currency translation adjustments, net of \$641,000 of taxes |                       |                 |                                  | 1,140,000               |                      | 1,140,000                                       |                   | 1,140,000                       |
| Minimum pension liability adjustment, net of \$44,000 of taxes      |                       |                 |                                  | 88,000                  |                      | 88,000  |                   | 88,000                          |
| Total comprehensive income  |                       |                 |                                  | \$ 15,865,000           |                      |   |                   |                                 |
| <b>At September 30, 2006</b>  | 8,169,060             | \$ 4,085,000    | \$ 144,000                       |                         | \$ 43,524,000        | \$ 2,852,000                                    | \$                | \$ 50,605,000                   |

(continued on next page)

## BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

Years ended September 30, 2006, 2007 and 2008

(continued from previous page)

|  | Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-In<br>Capital | Comprehensive<br>Income | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock | Total<br>Stockholders<br>Equity |
|--|-----------------------|-----------------|----------------------------------|-------------------------|----------------------|---|-------------------|---------------------------------|
| <b>Balance at September 30, 2006</b>   | 8,169,060             | \$ 4,085,000    | \$ 144,000                       |                         | \$ 43,524,000        | \$ 2,852,000                                    |                   | \$ 50,605,000                   |
| Exercise of stock options, 111,000 shares net of 1,900 shares tendered and placed in treasury      | 109,100               | 55,000          | 314,000                          |                         |                      |   | (40,000)          | 329,000                         |
| Share-based compensation costs   |                       |                 | 77,000                           |                         |                      |   |                   | 77,000                          |
| Tax benefit from employee stock option transactions  |                       |                 | 203,000                          |                         |                      |   |                   | 203,000                         |
| Purchases of 10,000 common shares for treasury   | (10,000)              |                 |                                  |                         |                      |   | (155,000)         | (155,000)                       |
| Dividends declared, \$0.25 per share   |                       |                 |                                  |                         | (2,052,000)          |   |                   | (2,052,000)                     |
| <b>Comprehensive income:</b>   |                       |                 |                                  |                         |                      |   |                   |                                 |
| Net earnings   |                       |                 |                                  | \$ 3,516,000            | 3,516,000            |   |                   | 3,516,000                       |
| Other comprehensive income - foreign currency translation adjustments, net of \$2,883,000 of taxes |                       |                 |                                  | 3,316,000               |                      | 3,316,000                                       |                   | 3,316,000                       |
| Total comprehensive income   |                       |                 |                                  | \$ 6,832,000            |                      |   |                   |                                 |
| Adjustment for initial adoption of SFAS No. 158, net of \$636,000 tax benefit                      |                       |                 |                                  |                         |                      | (1,235,000)                                     |                   | (1,235,000)                     |
| <b>At September 30, 2007</b>   | 8,268,160             | \$ 4,140,000    | \$ 738,000                       |                         | \$ 44,988,000        | \$ 4,933,000                                    | \$ (195,000)      | \$ 54,604,000                   |

(continued on next page)



## BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

Years ended September 30, 2006, 2007 and 2008

(continued from previous page)

|  | Shares<br>Outstanding | Common<br>Stock     | Additional<br>Paid-In<br>Capital | Comprehensive<br>Income | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock     | Total<br>Stockholders<br>Equity |
|--|-----------------------|---------------------|----------------------------------|-------------------------|----------------------|---|-----------------------|---------------------------------|
| <b>Balance at<br/>September 30, 2007</b>   | 8,268,160             | \$ 4,140,000        | \$ 738,000                       |                         | \$ 44,988,000        | \$ 4,933,000                                    | \$ (195,000)          | \$ 54,604,000                   |
| Exercise of stock options,<br>123,000 shares net of<br>5,200 shares tendered and<br>placed in treasury   | 117,800               | 62,000              | 257,000                          |                         |                      |   | (78,000)              | 241,000                         |
| Share-based<br>compensation costs  |                       |                     | 35,000                           |                         |                      |   |                       | 35,000                          |
| Tax benefit from<br>employee stock option<br>transactions  |                       |                     | 192,000                          |                         |                      |   |                       | 192,000                         |
| Purchases of 133,100<br>common shares for<br>treasury  | (133,100)             |                     |                                  |                         |                      |   | (1,892,000)           | (1,892,000)                     |
| Dividends declared, \$0.23<br>per share  |                       |                     |                                  |                         | (1,858,000)          |   |                       | (1,858,000)                     |
| Comprehensive income:  |                       |                     |                                  |                         |                      |   |                       |                                 |
| Net earnings   |                       |                     |                                  | \$ 11,732,000           | 11,732,000           |   |                       | 11,732,000                      |
| Other comprehensive loss<br>foreign currency<br>translation adjustments,<br>net of \$1,748,000 tax<br>benefit  |                       |                     |                                  | (2,066,000)             |                      | (2,066,000)                                     |                       | (2,066,000)                     |
| Other comprehensive<br>income retirement plans<br>amortization of<br>accumulated other<br>comprehensive loss into<br>net periodic benefit cost,<br>net of \$143,000 of taxes |                       |                     |                                  | 276,000                 |                      | 276,000   |                       | 276,000                         |
| Total comprehensive<br>income  |                       |                     |                                  | \$ 9,942,000            |                      |   |                       |                                 |
| <b>At September 30, 2008</b>   | <b>8,252,860</b>      | <b>\$ 4,202,000</b> | <b>\$ 1,222,000</b>              |                         | <b>\$ 54,862,000</b> | <b>\$ 3,143,000</b>                             | <b>\$ (2,165,000)</b> | <b>\$ 61,264,000</b>            |



**BARNWELL INDUSTRIES, INC.**

**AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED SEPTEMBER 30, 2008, 2007 AND 2006**

**1. DESCRIPTION OF THE REPORTING ENTITY AND BUSINESS**

The consolidated financial statements include the accounts of Barnwell Industries, Inc. and all majority-owned subsidiaries, including an indirect 77.6%-owned land investment general partnership and two 80%-owned joint ventures, (collectively referred to herein as Barnwell, we, our, us, or the Company ). All significant intercompany accounts and transactions have been eliminated. Investments in companies over which Barnwell has the ability to exercise significant influence, but not control, are accounted for using the equity method.

During its last three fiscal years, Barnwell was engaged in the following lines of business: 1) exploring for, developing, producing and selling oil and natural gas in Canada, 2) investing in leasehold land and other real estate interests in Hawaii, 3) acquiring property for investment and development of homes for sale in Hawaii (established January 2007), and 4) drilling wells and installing and repairing water pumping systems in Hawaii. Barnwell's oil and natural gas activities comprise its largest business segment. Approximately 75% of Barnwell's revenues and 96% of Barnwell's capital expenditures for the fiscal year ended September 30, 2008 were attributable to its oil and natural gas activities. Barnwell's land investment segment revenues accounted for 7% of fiscal 2008 revenues; Barnwell's contract drilling activities accounted for 15% of fiscal 2008 revenues; and Barnwell's residential real estate segment and other revenues comprised 3% of fiscal 2008 revenues.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Cash and Cash Equivalents*

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

*Accounts Receivable*



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

*Oil and Natural Gas Properties*

Barnwell uses the full cost method of accounting under which all costs incurred in the acquisition, exploration and development of oil and natural gas reserves, including costs related to unsuccessful wells and estimated future site restoration and abandonment, are capitalized until such time as the aggregate of such costs net of accumulated depletion and oil and natural gas related deferred income taxes, on a country-by-country basis, equals the sum of 1) the discounted present value (at 10%), using prices as of the end of each reporting period on a constant basis, of Barnwell's estimated future net cash flows from estimated production of proved oil and natural gas reserves as determined by independent petroleum engineers, less estimated future expenditures to be incurred in developing and producing the proved reserves but excluding future cash outflows associated with settling asset retirement obligations accrued on the balance sheet; plus 2) the cost of major development projects and unproven properties not subject to depletion, if any; plus 3) the lower of cost or estimated fair value of unproven properties included in costs subject to depletion; less 4) related income tax effects. If net capitalized costs exceed this limit, the excess is expensed unless subsequent market price changes eliminate or reduce the indicated write-down in accordance with U.S. Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) Topic 12D. Depletion is computed using the units-of-production method whereby capitalized costs, net of salvage values, plus estimated future costs to develop proved reserves and satisfy asset retirement obligations, are amortized over the total estimated proved reserves on a country-by-country basis. Investments in major development projects are not depleted until either proved reserves are associated with the projects or impairment has been determined. At September 30, 2008 and 2007, Barnwell had no investments in major oil and natural gas development projects that were not being depleted. General and administrative costs related to oil and natural gas operations are expensed as incurred. Proceeds from the disposition of minor producing oil and natural gas properties are credited to the cost of oil and natural gas properties. Gains or losses are recognized on the disposition of significant oil and natural gas properties.

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

Barnwell's sales reflect its gross working interest share. Barnwell's production is delivered and sold at the plant gate and Barnwell does not hold any transportation contracts with pipelines. Additionally, Barnwell does not have contractual obligations related to the physical amount of natural gas to be delivered nor does Barnwell have natural gas imbalances related to natural gas-balancing arrangements with its partners.

*Investment in Land Interests*

Barnwell accounts for sales of development rights under option and the Increment I and Increment II leasehold land interest sales under the full accrual method pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 66, Accounting for Sales of Real Estate. Gains from such sales are recognized when the buyer's investments are adequate to demonstrate a commitment to pay for the property, risks and rewards of ownership have been transferred to the buyer, and Barnwell does not have a substantial continuing involvement with the property sold. With regard to the sales of Increment I and Increment II leasehold land interests, in accordance with SFAS No. 66, the percentage of sales payments are contingent future profits which will be recognized when they are realized, and all costs of the sales were recognized at the time of sale and none were deferred to future periods when any contingent profits will be recognized. Costs incurred for the acquisition and improvement of leasehold land interests and lot acquisition rights not yet sold are included in the Consolidated Balance Sheets under the caption Investment in Land Interests. Investment in land

interests is reported at the lower of the asset carrying value or fair value and is evaluated for impairment whenever events or changes in circumstances indicate that the recorded investment balance may not be fully recoverable.

*Residential Lots Under Development, Investment in Residential Parcels and Deposits on Residential Parcels*

Residential lots under development, investment in residential parcels and deposits on residential parcels are reported at the lower of the asset carrying value or fair value. The recorded balances are evaluated for impairment whenever events or changes in circumstances indicate that the balance may not be fully recoverable.

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

Barnwell capitalizes interest costs during development and construction and includes these costs in cost of sales when homes are sold.

*Investment in Affiliate*

Barnwell accounts for its investment in unconsolidated affiliates under the equity method when Barnwell's ownership interest is more than 20% but no more than 50% and Barnwell does not exercise direct or indirect control over the investee. Factors that are considered in determining whether or not Barnwell exercises control include rights of partners regarding significant strategic and operational decisions. Under the equity method, the investment is carried at cost and Barnwell's share of the affiliate's earnings or loss is recognized as earned.

*Contract Drilling*

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

*Income Taxes*

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

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Barnwell has established a valuation allowance primarily for the U.S. tax effect of deferred Canadian taxes, accrued liabilities, bad debt allowances and state of Hawaii net operating loss carryforwards which may not be realizable in future years as there can be no assurance of any specific level of earnings, that the timing of U.S. taxable income will coincide with the payment of Canadian taxes to enable Canadian taxes to be fully deducted (or recoverable) for U.S. tax purposes, or that Canadian deferred tax assets will provide any incremental benefit for U.S. tax purposes over the amount of benefit for Canadian tax purposes.

Effective October 1, 2007, Barnwell adopted the provisions of FASB Interpretation ( FIN ) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. This interpretation prescribes a threshold for recognizing the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by a taxing authority. Recognized tax positions are initially and subsequently measured as the largest amount of tax benefit that is more likely than not of being realized upon ultimate settlement with a taxing authority. Liabilities for unrecognized tax benefits related to such tax positions are included in other long-term liabilities unless the tax position is expected to be settled within the upcoming year, in which case the liabilities are included in accrued expenses and other current liabilities. Interest and penalties related to unrecognized tax benefits are included in income tax expense. The adoption of FIN No. 48 did not have a material impact on Barnwell's financial statements. See further discussion at Note 13 below.

#### *Retirement Plans*

Barnwell sponsors a noncontributory defined benefit pension plan covering substantially all of its U.S. employees, with benefits based on years of service and the employee's highest consecutive five-year average earnings. 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. In December 2006, Barnwell adopted a postretirement medical insurance benefits plan covering certain U.S. employees.

Barnwell accounts for its defined benefit pension plan and SERP in accordance with SFAS No. 87, Employers' Accounting for Pensions and its postretirement medical insurance benefits plan in accordance with SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. Effective September 30, 2007, Barnwell adopted the recognition and disclosure provisions of SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) for its retirement plans. SFAS No. 158 requires an employer to recognize the over-funded or under-funded status of defined benefit pension and other postretirement plans (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also requires the measurement of retirement plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions). See further discussion at Note 14 below.

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

At the end of each year, Barnwell determines the discount rate to be used to calculate the present value of plan liabilities and the net periodic benefit cost. The discount rate is an estimate of the current interest rate at which the retirement plan liabilities could be effectively settled at the end of the year. In estimating this rate, Barnwell looks to rates of return on high-quality, fixed-income investments. The discount rate used to value the future benefit obligation as of each year-end is the rate used to determine the periodic benefit cost in the following year. The estimated rate of return on plan assets is based on historical trends combined with long-term expectations, the mix of plan assets and long-term inflation assumptions. For both the discount rate and the plan asset return rate, a range of estimates could reasonably have been used which would affect the amount of retirement plan expense and retirement plan liability recorded.

The effects of actual results differing from the above assumptions or revisions to actuarial assumptions could materially affect Barnwell's financial condition and/or results of operations. The effects of changing assumptions are included in unamortized net gains and losses, which directly affect accumulated other comprehensive income (loss). These unamortized gains and losses are amortized and reclassified to income (loss) over future periods.

#### *Long-lived Assets*

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

Drilling rigs, premises and other property and equipment are depreciated using the straight-line method based on estimated useful lives.

#### *Inventories*

Inventories are comprised of drilling materials and are valued at the lower of weighted-average cost or market value. Inventory is included in the Consolidated Balance Sheets as of September 30, 2008 and 2007 under the caption Other current assets.

#### *Environmental*

Barnwell is subject to extensive environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and maintenance of surface conditions and may require Barnwell to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized

depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Liabilities for expenditures of a noncapital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated.

*Asset Retirement Obligation*

Barnwell accounts for asset retirement obligations in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*, and FIN No. 47, *Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143*, which requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Barnwell's estimated site restoration and abandonment costs of its oil and natural gas properties are capitalized as part of the carrying amount of oil and natural gas properties and depleted over the life of the related reserves. The liability is accreted at the end of each period through charges to oil and natural gas operating expense. If an obligation is settled for other than the carrying amount of the liability, Barnwell will recognize a gain or loss on settlement.

*Earnings Per Common Share*

In October 2005, Barnwell's Board of Directors declared a three-for-one stock split in the form of a 200% stock dividend. The shares were distributed on November 14, 2005 to all stockholders of record as of October 28, 2005. All information in this Form 10-K/A has been adjusted where necessary to reflect the stock split for all periods presented.

Basic earnings per share excludes dilution and is computed by dividing net earnings by the weighted-average number of common shares outstanding for the period. Diluted earnings per share includes the potentially dilutive effect of outstanding common stock options.

Reconciliations between the numerator and denominator of the basic and diluted earnings per share computations for the years ended September 30, 2008, 2007 and 2006 are as follows:

|  | Net Earnings<br>(Numerator) | September 30, 2008<br>Shares<br>(Denominator) | Per-Share<br>Amount |
|--|-----------------------------|---|---------------------|
| Basic earnings per share                             | \$ 11,732,000               | 8,248,581                                     | \$ 1.42             |
| Effect of dilutive securities - common stock options |                             | 190,333                                       |                     |
| Diluted earnings per share                           | \$ 11,732,000               | 8,438,914                                     | \$ 1.39             |

|  | Net Earnings<br>(Numerator) | September 30, 2007<br>Shares<br>(Denominator) | Per-Share<br>Amount |
|--|-----------------------------|---|---------------------|
| Basic earnings per share                             | \$ 3,516,000                | 8,208,189                                     | \$ 0.43             |
| Effect of dilutive securities - common stock options |                             | 400,570                                       |                     |
| Diluted earnings per share                           | \$ 3,516,000                | 8,608,759                                     | \$ 0.41             |



|  | Net Earnings<br>(Numerator) | September 30, 2006<br>Shares<br>(Denominator) | Per-Share<br>Amount |
|--|-----------------------------|---|---------------------|
| Basic earnings per share                             | \$ 14,637,000               | 8,169,060                                     | \$ 1.79             |
| Effect of dilutive securities - common stock options |                             | 529,345                                       |                     |
| Diluted earnings per share                           | \$ 14,637,000               | 8,698,405                                     | \$ 1.68             |

There were no anti-dilutive shares for fiscal years 2008, 2007 and 2006.

#### *Share-Based Compensation*

Barnwell accounts for its share-based compensation plans in accordance with SFAS No. 123(R), Share-Based Payment, and SEC SAB No. 107, Share-Based Payment, using the modified prospective method. Under SFAS No. 123(R), share-based compensation cost is measured at fair value. Under the modified prospective transition method, compensation cost recognized in the years ended September 30, 2008, 2007 and 2006 include the cost for equity-classified share options vested during the period and all vested liability-classified share-based awards granted prior to October 1, 2005, as determined under the provisions of SFAS No. 123(R). The cumulative effect, net of income taxes, of the impact of adoption of SFAS No. 123(R) on liability-classified awards on October 1, 2005, was not material to the consolidated financial statements.

Under SFAS No. 123(R), share-based compensation cost is measured at fair value. Barnwell utilizes a closed-form valuation model to determine the fair value of each option award. Expected volatilities are based on the historical volatility of Barnwell's stock over a period consistent with that of the expected terms of the options. The expected terms of the options represent expectations of future employee exercise and are estimated based on factors such as vesting periods, contractual expiration dates, historical trends in Barnwell's stock price, and historical exercise behavior. The risk-free rates for periods within the contractual life of the options are based on the yields of U.S. Treasury instruments with terms comparable to the estimated option terms. Expected dividends are based on current and historical dividend payments. Share-based compensation expense recognized in earnings for the years ended September 30, 2008, 2007 and 2006 are reflected in General and administrative expenses in the Consolidated Statements of Earnings.

#### *Foreign Currency Translation*

Assets and liabilities of foreign operations and subsidiaries are translated at the year-end exchange rate and resulting translation gains or losses are accounted for in a stockholders' equity account entitled Accumulated other comprehensive income, net. Operating results of foreign subsidiaries are translated at average exchange rates during the period. Realized foreign currency transaction gains or losses were not material in fiscal years 2008, 2007, and 2006.

#### *Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 fair value of other assets, and such assumptions may impact the amount at which such items are recorded.

#### *Reclassifications*

Certain reclassifications have been made to the September 30, 2007 and 2006 consolidated financial statements to conform to classifications used in the September 30, 2008 consolidated financial statements.

#### *Recently Issued Accounting Standards*

In September 2006, the Financial Accounting Standards Board (the FASB) issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, however, for some entities, the application of SFAS No. 157 will change current practice. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Adoption of SFAS No. 157 will not have a material impact on Barnwell's results of operations, financial condition and liquidity.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. SFAS No. 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected are recognized in earnings as incurred. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Adoption of SFAS No. 159 will not have a material impact on Barnwell's results of operations, financial condition and liquidity.

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment to Accounting Research Bulletin No. 51. SFAS No. 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the Consolidated Balance Sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the Consolidated Statement of Earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008. Barnwell's management is currently evaluating the impact of these provisions on Barnwell's results of operations, financial condition and liquidity.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles. SFAS No. 162 becomes effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendment to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. Barnwell does not expect that the adoption of SFAS No. 162 will have a material impact on its financial statements.



### 3. ACCOUNTS RECEIVABLE AND CONTRACT COSTS

Accounts receivable are net of allowances for doubtful accounts of \$1,078,000 and \$20,000 as of September 30, 2008 and 2007, respectively. Included in accounts receivable are contract retainage balances of \$532,000 and \$385,000 as of September 30, 2008 and 2007, respectively. The retainage balance as of September 30, 2008 is expected to be collected within one year, generally within 45 days after the related contracts have received final acceptance and approval.

The increase in the allowance for doubtful accounts at September 30, 2008 as compared to September 30, 2007 is principally due to the bankruptcy of SemGroup, L.P. In July 2008, SemGroup, L.P. announced it had filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code as well as an application for creditor protection under the Companies' Creditors Arrangement Act in Canada. A subsidiary of SemGroup, L.P. was a significant marketer of Barnwell's oil and natural gas. As a result of the SemGroup, L.P. bankruptcy filings, Barnwell recorded an \$857,000 allowance for doubtful accounts and bad debt expense during the year ended September 30, 2008 for production sold to the SemGroup, L.P. subsidiary in June and July 2008. August 2008 and subsequent production was moved to a different marketer.

Costs and estimated earnings on uncompleted contracts are as follows:

|   | September 30,     |                    |
|---|-------------------|--------------------|
|   | 2008              | 2007               |
| Costs incurred on uncompleted contracts | \$ 7,629,000      | \$ 6,365,000       |
| Estimated earnings                      | 1,271,000         | 751,000            |
|   | <b>8,900,000</b>  | <b>7,116,000</b>   |
| Less billings to date                   | 8,252,000         | 7,173,000          |
|   | <b>\$ 648,000</b> | <b>\$ (57,000)</b> |

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

|   | September 30,     |                    |
|---|-------------------|--------------------|
|   | 2008              | 2007               |
| Costs and estimated earnings in excess of billings on uncompleted contracts (included in other current assets)      | \$ 884,000        | \$ 598,000         |
| Billings in excess of costs and estimated earnings on uncompleted contracts (included in other current liabilities) | (236,000)         | (655,000)          |
|   | <b>\$ 648,000</b> | <b>\$ (57,000)</b> |

### 4. SHARE-BASED PAYMENTS

Barnwell has outstanding stock options issued to certain employees under stockholder-approved qualified plans and non-qualified plans at September 30, 2008. The qualified options were granted in accordance with the 1998 Stock Option Plan with an exercise price equal to the closing market price of Barnwell's stock on the date preceding the date of grant (110% of the closing market price on the date



preceding the date of grant for options granted to affiliates), vest annually over four years of continuous service, and expire ten years from the date of grant (five years from date of grant for options granted to affiliates). The qualified plan permits the grant of share options to employees for up to 780,000 shares of common stock. A total of 774,000 share options have been granted under this plan. No option shares were available for grant under the qualified plan as of the date of this filing. The non-qualified options were granted with an exercise price equal to the closing market price of Barnwell's stock on the date of grant, vest annually over five years of continuous service, and expire ten years from the date of grant. The non-qualified options have stock appreciation rights features that permit the holder to receive stock, cash or a combination thereof equal to the amount by which the fair market value, at the time of exercise of the option, exceeds the option price.

On March 3, 2008, the stockholders of Barnwell approved the 2008 Equity Incentive Plan (the 2008 Plan). Under the 2008 Plan, the Compensation Committee, which consists of independent members of Barnwell's Board of Directors, is authorized to grant incentive stock options, nonstatutory stock options, stock options with stock appreciation rights, restricted stock, restricted stock units and performance units, qualified performance-based awards, and stock grants to employees, consultants and non-employee members of the Board of Directors. 800,000 shares of Barnwell common stock have been reserved for issuance pursuant to the 2008 Plan. A total of 340,000 share options have been granted under this plan, leaving 460,000 option shares available for grant under the 2008 Plan at September 30, 2008.

Barnwell currently has a policy of issuing new shares to satisfy share option exercises under both the qualified plans and non-qualified plans when the optionee requests shares.

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

|  | 2008         | Year ended September 30,<br>2007 | 2006         |
|--|--------------|----------------------------------|--------------|
| Share-based compensation (benefit) expense | \$ (402,000) | \$ 462,000                       | \$ 583,000   |
| Income tax effect - provision (benefit)    | \$ 149,000   | \$ (133,000)                     | \$ (146,000) |

As of September 30, 2008, there was \$839,000 of total unrecognized compensation cost related to nonvested equity-classified and liability-classified share options. That cost is expected to be recognized over 3.4 years. Total share-based compensation expense related to the vesting of awards in the years ended September 30, 2008, 2007 and 2006 was \$374,000, \$408,000 and \$884,000, respectively. Share-based compensation expense recognized in earnings for the years ended September 30, 2008, 2007 and 2006 are reflected in General and administrative expenses in the Consolidated Statements of Earnings.

#### *Equity-classified Awards*

Compensation cost for equity-classified awards, such as Barnwell's stock options issued under the qualified plan, is measured at the grant date based on the fair value of the award and is recognized as an expense in earnings over the requisite service period using a graded vesting method.

A summary of the activity in Barnwell's equity-classified share options as of the beginning and end of the year ended September 30, 2008 is presented below:

| Options                           | Shares    | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|-----------------------------------|-----------|---------------------------------|---|---------------------------|
| Outstanding at October 1, 2007    | 345,000   | \$ 5.96                         |   |                           |
| Granted                           |           |                                 |   |                           |
| Exercised                         | (123,000) | \$ 2.59                         |   |                           |
| Forfeited/Expired                 |           |                                 |   |                           |
| Outstanding at September 30, 2008 | 222,000   | \$ 7.83                         | 2.5   | \$ 365,000                |
| Exercisable at September 30, 2008 | 169,500   | \$ 7.39                         | 2.5   | \$ 352,000                |

Total share-based compensation expense for equity-classified awards vested in the years ended September 30, 2008, 2007 and 2006 was \$35,000, \$77,000 and \$144,000, respectively. There was no impact on income taxes as the expense relates to qualified options.

The total intrinsic value of equity options exercised during the years ended September 30, 2008, 2007 and 2006 was \$1,077,000, \$1,733,000 and nil, respectively.

Barnwell recorded tax benefits related to employees' disqualification of qualified stock options of \$192,000 and \$203,000 during the years ended September 30, 2008 and 2007, respectively. The tax benefits were reflected as increases in additional paid-in capital in fiscal 2008 and 2007. There were no stock option disqualifications in fiscal 2006.

#### *Liability-classified Awards*

Compensation cost for liability-classified awards, such as Barnwell's non-qualified stock options with stock appreciation rights features, is remeasured at each period-end using a closed-form valuation model based on current values and is recognized as an expense over the requisite service period.

Barnwell granted stock options to acquire a total of 340,000 shares of Barnwell's common stock under non-qualified plans during fiscal 2008.



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The following assumptions were used in estimating fair value for all liability-classified share options outstanding during the years ended September 30, 2008, 2007 and 2006:

|                             | 2008           | Year ended September 30,<br>2007 | 2006           |
|-----------------------------|----------------|----------------------------------|----------------|
| Expected volatility range   | 37.4% to 43.4% | 35.0% to 35.2%                   | 28.4% to 42.0% |
| Weighted-average volatility | 39.4%          | 35.2%                            | 33.0%          |
| Expected dividends          | 2.4%           | 1.2% to 1.3%                     | 1.0%           |
| Expected term (in years)    | 6.2 to 9.6     | 0.7 to 4.8                       | 0.8 to 6.0     |
| Risk-free interest rate     | 3.2% to 3.9%   | 4.1% to 4.2%                     | 4.7% to 4.9%   |
| Expected forfeitures        | None           | None                             | None           |

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

A summary of the activity in Barnwell's liability-classified share options as of the beginning and end of the year ended September 30, 2008 is presented below:

| Options                           | Shares   | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|-----------------------------------|----------|---------------------------------|---|---------------------------|
| Outstanding at October 1, 2007    | 196,000  | \$ 7.54                         |   |                           |
| Granted                           | 340,000  | \$ 11.85                        |   |                           |
| Exercised                         | (40,000) | \$ 2.60                         |   |                           |
| Forfeited/Expired                 |          |                                 |   |                           |
| Outstanding at September 30, 2008 | 496,000  | \$ 10.89                        | 8.4   | \$ 103,000                |
| Exercisable at September 30, 2008 | 72,000   | \$ 8.80                         | 6.2   | \$ 48,000                 |

Total share-based compensation for liability-classified awards was a benefit of \$437,000 for the year ended September 30, 2008 and expenses of \$385,000 and \$439,000 for the years ended September 30, 2007 and 2006, respectively. The related income tax effects were an expense of \$149,000 for the year ended September 30, 2008 and benefits of \$133,000 and \$146,000 for the years ended September 30, 2007 and 2006, respectively. Included in share-based compensation for liability-classified awards for fiscal 2008, 2007 and 2006 was \$339,000, \$331,000 and \$740,000, respectively, of compensation expense related to shares that vested during each respective period and a \$776,000 benefit, a \$54,000 expense and a \$301,000 benefit, respectively, due to remeasurement at September 30, 2008, 2007 and 2006 of the fair value of previously vested shares.

In fiscal 2008, the stock appreciation rights feature of 40,000 shares of non-qualified options was exercised and \$458,000 was paid in cash by Barnwell. The tax benefit realized for the tax deduction of these exercised options was \$156,000 for the year ended September 30, 2008. There were no other liability-classified share option exercises, expirations, or forfeitures in the year ended September 30, 2008.



During fiscal 2007, the stock appreciation rights feature of 104,000 shares of non-qualified options was exercised and \$2,024,000 was paid in cash by Barnwell. The tax benefit realized for the tax deduction of the exercised options was \$705,000 for the year ended September 30, 2007. There were no other liability-classified share option grants, exercises, expirations, or forfeitures in the year ended September 30, 2007.

During fiscal 2006, the stock appreciation rights feature of 90,000 shares of non-qualified options was exercised and \$1,649,000 was paid in cash by Barnwell. The tax benefit realized for the tax deduction of the exercised options was \$577,000 for the year ended September 30, 2006. There were no other liability-classified share option grants, exercises, expirations, or forfeitures in the year ended September 30, 2006.

#### *Summary of Stock Awards*

In June 1998, Barnwell granted 180,000 stock options under a non-qualified plan at a purchase price of \$2.60 per share (market price on date of grant). These options have stock appreciation rights that permit the holder to receive stock, cash or a combination thereof equal to the amount by which the fair market value, at the time of exercise of the option, exceeds the option price. During the years ended September 30, 2008, 2007 and 2006, the stock appreciation rights feature on 40,000 shares, 80,000 shares and 60,000 shares, respectively, of these options were exercised and the differences between the exercise price and the closing prices per share on the days prior to the dates of exercise were paid by Barnwell. Barnwell recognized compensation benefits of \$108,000 and \$359,000 relating to these options in fiscal years 2008 and 2006, respectively, and compensation expense of \$229,000 in fiscal 2007.

In December 1999, Barnwell granted qualified stock options to acquire 582,000 shares of Barnwell's common stock at a weighted-average exercise price per share of \$2.04 (based on grants at market price and 110% of market price at date of grant). The remaining 42,000 shares of unexercised options outstanding as of September 30, 2008 expire in December 2009. During the years ended September 30, 2008 and 2007, Barnwell issued 113,000 shares and 91,000 shares, respectively, of its common stock resulting from exercises of these qualified stock options; no shares were issued during the year ended September 30, 2006. No compensation cost was recognized for these options for the years ended September 30, 2008, 2007 and 2006 as these options were fully vested prior to 2005.

In December 2004, Barnwell granted qualified stock options to acquire 210,000 shares of Barnwell's common stock at a weighted-average exercise price per share of \$9.23 (based on grants at market price and 110% of market price at the date of grant). These options vest annually over four years commencing one year from the date of grant and expire in December 2014 and December 2009 (for options granted to affiliates). During the years ended September 30, 2008 and 2007, Barnwell issued 10,000 and 20,000 shares of its common stock, respectively, resulting from exercises of these stock options. No shares were issued during the year ended September 30, 2006. Barnwell recognized compensation expense of \$35,000, \$77,000 and \$144,000 relating to these options in fiscal years 2008, 2007 and 2006, respectively.

In December 2004, Barnwell granted stock options to acquire 210,000 shares of Barnwell's common stock under a non-qualified plan at a purchase price of \$8.80 per share (market price on date of grant). These options vest annually over five years commencing one year from the date of grant and expire in December 2014. These options have stock appreciation rights that permit the holder to receive stock, cash or a combination thereof equal to the amount by which the fair market value, at the

time of exercise of the option, exceeds the option price. During the years ended September 30, 2007 and 2006, the stock appreciation rights feature of 24,000 shares and 30,000 shares, respectively, of these options were exercised and the differences between the exercise price and the closing prices per share on the days prior to the dates of exercise were paid by Barnwell; no options were exercised during fiscal 2008. Barnwell recognized a compensation benefit of \$590,000 relating to these options in fiscal 2008 and compensation expense of \$156,000 and \$798,000 in fiscal years 2007 and 2006, respectively.

In December 2007, Barnwell granted stock options to acquire 100,000 shares of Barnwell's common stock under a non-qualified plan at a purchase price of \$12.92 per share (market price on date of grant). The stock options were issued in March 2008 under the 2008 Plan, which received shareholder approval on March 3, 2008. These options vest annually over four years commencing one year from the date of grant and expire in December 2017. These options have stock appreciation rights that permit the holder to receive stock, cash or a combination thereof equal to the amount by which the fair market value, at the time of exercise of the option, exceeds the option price. Barnwell recognized compensation expense of \$104,000 relating to these options in fiscal 2008.

In May 2008, Barnwell granted stock options to acquire 240,000 shares of Barnwell's common stock under a non-qualified plan at a purchase price of \$11.40 per share (market price on date of grant). The stock options were issued under the 2008 Plan. These options vest annually over four years commencing one year from the date of grant and expire in May 2018. These options have stock appreciation rights that permit the holders to receive stock, cash or a combination thereof equal to the amount by which the fair market value, at the time of exercise of the option, exceeds the option price. Barnwell recognized compensation expense of \$157,000 relating to these options in fiscal 2008.

#### **5. DEPOSITS ON RESIDENTIAL PARCELS, INVESTMENT IN RESIDENTIAL PARCELS AND RESIDENTIAL LOTS UNDER DEVELOPMENT**

Established in fiscal 2007, Kaupulehu 2007, LLLP ( Kaupulehu 2007 ), a Hawaii limited liability limited partnership 80%-owned by Barnwell and 20%-owned by Nearco, Inc. ( Nearco ), a company controlled by a director of Barnwell and minority interest owner in certain of Barnwell's business ventures (see further discussion on related party interests at Note 9 below), acquires house lots for investment and constructs turnkey single-family homes for future sale. Upon establishment, Kaupulehu 2007 made nonrefundable initial deposits of \$200,000 each to secure the right to purchase seven parcels at a purchase price of \$2,378,000 each in the Lot 4A Increment I area of Kaupulehu, North Kona, Hawaii from WB KD Acquisition, LLC ( WB ), an unrelated entity. WB is affiliated with RP-Hualalai Investors, LLC, a managing member of Hualalai Investors, owners and current developers of Hualalai Resort, and Westbrook Partners, developers of Kuki'o Resort located adjacent to Hualalai Resort.

As of September 30, 2008, Kaupulehu 2007 owns four parcels in the Lot 4A Increment I area located approximately six miles north of the Kona International Airport in the North Kona District of the island of Hawaii, within and adjacent to the Hualalai Resort at Historic Kaupulehu, between the Queen Kaahumanu Highway and the Pacific Ocean. Three of the four parcels were acquired in fiscal 2007 and the fourth parcel was acquired in the second quarter of fiscal 2008. Kaupulehu 2007 is in the process of developing residences for future sale on two of the parcels and intends to hold the remaining two parcels for investment purposes. The two parcels held for development are classified as Residential Lots Under Development and the other two parcels are classified as Investment in Residential Parcels on the Consolidated Balance Sheet at September 30, 2008.

In June 2008, Kaupulehu 2007 sold its investments in two of its three remaining rights to purchase lots in the Lot 4A Increment I area to an unrelated party at a price of \$221,000 each. The \$443,000 gain from the sale of lot purchase rights is reflected in Gas processing and other on the Consolidated Statement of Earnings for the year ended September 30, 2008. The unrelated party used the lot purchase rights acquired from Kaupulehu 2007 to purchase two parcels in the Lot 4A Increment I area from WB. As Kaupulehu 2007 no longer had an obligation to purchase the aforementioned two parcels, Kaupulehu 2007 received a \$400,000 refund of its original deposits for the two lots at \$200,000 per lot.

At September 30, 2008, one deposit of \$200,000 remained. The closing date for Kaupulehu 2007's obligation to purchase the remaining parcel is being negotiated.

Included in the Consolidated Balance Sheets under the caption Residential Lots Under Development are capitalized costs, which include the costs of acquiring land, development and construction costs, interest, property taxes and general and administrative expenses related to the development of land and home construction. Costs that relate to a specific lot or home are assigned to that lot or home while common costs related to multiple lots or homes are allocated to each in proportion to their anticipated sales value. Kaupulehu 2007 capitalizes interest costs during development and construction and includes these costs in cost of sales when homes are sold. These capitalized interest costs totaled \$394,000 and \$142,000 for the years ended September 30, 2008 and 2007, respectively.

Kaupulehu 2007 has an agreement with Mr. David Johnston, the son of a director of Barnwell and minority interest owner in certain of Barnwell's ventures (see further discussion on related party interests at Note 9 below), under which Mr. David Johnston serves as Kaupulehu 2007's project manager. Kaupulehu 2007 also has an agreement with an independent building contractor for home building services for Kaupulehu 2007's lots. A significant provision of these agreements is that in addition to a monthly fee, Mr. David Johnston and the building contractor will each receive 20% of the sales profit which is contingent on the sale of each of the two homes that are under construction.

## **6. INVESTMENT IN JOINT VENTURES**

Kaupulehu Investors, LLC, a limited liability company 80%-owned by Barnwell and 20%-owned by Nearco, a company controlled by a director of Barnwell and minority interest owner in certain of Barnwell's business ventures (see further discussion on related party interests at Note 9 below), owns a 1.5% passive minority interest in Hualalai Investors JV, LLC and in Hualalai Investors II, LLC (hereinafter referred to as Hualalai Investors), owners of Hualalai Resort, and Kona Village Investors, LLC, owner of Kona Village Resort.

Nearco purchased its 20% interest in Kaupulehu Investors, LLC, from Barnwell in fiscal 2007. No gain or loss was recognized by Barnwell on this sale and Barnwell's interest in Kaupulehu Investors, LLC was reduced to 80% as a result of this transaction.

Kaupulehu Investors, LLC, accounts for its 1.5% passive investments under the cost method. The investments are evaluated for impairment whenever events or changes in circumstances indicate that the recorded investment balance may not be fully recoverable. These investments are reflected in the Consolidated Balance Sheets as of September 30, 2008 and 2007 as Investment in Joint Ventures.



## 7. INVESTMENT IN LAND INTERESTS

### *Background*

Barnwell owns a 77.6% controlling interest in Kaupulehu Developments, a Hawaii general partnership that owns interests in leasehold land and development rights for property located approximately six miles north of the Kona International Airport in the North Kona District of the island of Hawaii.

Between 1986 and 1989, Kaupulehu Developments obtained the state and county zoning changes necessary to permit development of the Four Seasons Resort Hualalai at Historic Kaupulehu and Hualalai Golf Club which opened in 1996, a second golf course, and single-family and multi-family residential units. These projects were developed on leasehold land acquired from Kaupulehu Developments by Kaupulehu Makai Venture, an unrelated entity, which was subsequently acquired in June 2006 by Hualalai Investors, an unrelated entity in which Barnwell acquired a 1.5% passive minority interest in fiscal 2007 (see further discussion in Note 6 above).

Between 1993 and 2001, Kaupulehu Developments obtained the state and county zoning changes necessary to permit development of single-family and multi-family residential units, a golf course and a limited commercial area on approximately 870 leasehold acres located adjacent to and north of the Four Seasons Resort Hualalai at Historic Kaupulehu.

### *Development Rights Under Option*

Kaupulehu Developments holds development rights for residentially-zoned leasehold land within and adjacent to the Hualalai Golf Club. The development rights are under option to Hualalai Investors, an entity in which Barnwell acquired a 1.5% passive minority interest through an 80%-owned joint venture in fiscal 2007. Hualalai Investors is the owner and current developer of Hualalai Resort. Revenues, minority interest in earnings and operating profit related to sales of development rights under option for the fiscal years ended September 30, 2008, 2007 and 2006 are summarized as follows:

|  | 2008         | Year ended September 30, |              |
|--|--------------|--------------------------|--------------|
|  |              | 2007                     | 2006         |
| Sale of development rights under option:           |              |                          |              |
| Proceeds   | \$ 4,426,000 | \$ 2,438,000             | \$ 2,875,000 |
| Fees   | (265,000)    | (146,000)                | (173,000)    |
| Revenues - sale of development rights, net         | 4,161,000    | 2,292,000                | 2,702,000    |
| Minority interest in earnings                      | (910,000)    | (501,000)                | (591,000)    |
| Operating profit - sale of development rights, net | \$ 3,251,000 | \$ 1,791,000             | \$ 2,111,000 |

Fiscal 2008 proceeds from the sale of development rights of \$4,426,000 include \$2,656,000 of proceeds received for the development rights option that was due on December 31, 2007 as well as \$1,770,000 of proceeds related to the development rights option due on December 31, 2008.





The total amount of remaining future option receipts, if all options are fully exercised, is \$6,198,000 as of September 30, 2008, comprised of \$886,000 representing the balance of the option due on December 31, 2008, and two payments of \$2,656,000 due on December 31, 2009 and December 31, 2010. If any annual option payment is not made, the then remaining development right options will expire. There is no assurance that any portion of the remaining options will be exercised.

All capitalized costs associated with Kaupulehu Developments' development rights were expensed in previous years. The development rights option revenues, net of related fees, are recorded in the Consolidated Statements of Earnings as Sale of development rights, net.

*Lot 4A Increments I and II*

In February 2004, Kaupulehu Developments entered into a Purchase and Sale Agreement with WB KD Acquisition, LLC ( WB ) under which Kaupulehu Developments transferred its leasehold interest in approximately 870 acres zoned for resort/residential development, in two increments ( Increment I and Increment II ), to WB. There is no affiliation between Kaupulehu Developments and WB. WB is affiliated with RP-Hualalai Investors, LLC, a managing member of Hualalai Investors, and Westbrook Partners, developers of Kuki o Resort located adjacent to Hualalai Resort. Increment I is an area planned for approximately 80 single-family lots and a beach club on the portion of the property bordering the Pacific Ocean. The purchasers of the 80 single-family lots will have the right to apply for membership in the Kuki o Resort Golf and Beach Club, which is located adjacent to and south of the Four Seasons Resort Hualalai at Historic Ka upulehu. Increment II is the remaining portion of the approximately 870-acre property and is zoned for single-family and multi-family residential units and a golf course and clubhouse.

With respect to Increment I, Kaupulehu Developments received an \$11,550,000 payment in February 2004 and is entitled to receive payments from WB based on the following percentages of the gross receipts from WB's sales of single-family residential lots in Increment I: 9% of the gross proceeds from single-family lot sales up to aggregate gross proceeds of \$100,000,000; 10% of such aggregate gross proceeds greater than \$100,000,000 but less than \$300,000,000; and 14% of such aggregate gross proceeds in excess of \$300,000,000.

In June 2006, Kaupulehu Developments entered into an agreement with WB and WB KD Acquisition II, LLC ( WBKD ), under which Kaupulehu Developments sold its interest in Increment II to WBKD. There is no affiliation between Kaupulehu Developments and WB or WBKD. WB and WBKD are both affiliates of RP-Hualalai Investors, LLC and Westbrook Partners. Pursuant to the Increment II sale, Kaupulehu Developments received a \$10,000,000 closing payment and is entitled to receive future payments from WBKD based on a percentage of the sales prices of the residential lots, ranging from 3.25% to 14%, to be determined in the future depending upon a number of variables, including whether the lots are sold prior to improvement.

The following table summarizes the revenues received from WB for the sale of Kaupulehu Developments' interest in leasehold land, related minority interest in earnings and operating profit for the years ended September 30, 2008, 2007 and 2006:

|  | Year ended September 30, |              |              |
|--|--------------------------|--------------|--------------|
|  | 2008                     | 2007         | 2006         |
| Sale of interest in leasehold land:                        |                          |              |              |
| Revenues from percentage of sales payments                 | \$ 517,000               | \$ 3,585,000 | \$ 3,660,000 |
| Revenues from Increment II closing payment                 |                          |              | 10,000,000   |
| Capitalized costs relating to Increment II sale            |                          |              | (2,983,000)  |
| Legal costs relating to Increment II sale                  |                          |              | (220,000)    |
| Fees   | (71,000)                 | (215,000)    | (820,000)    |
| Revenues - sale of interest in leasehold land, net         | 446,000                  | 3,370,000    | 9,637,000    |
| Minority interest in earnings                              | (243,000)                | (737,000)    | (2,328,000)  |
| Operating profit - sale of interest in leasehold land, net | \$ 203,000               | \$ 2,633,000 | \$ 7,309,000 |

WB sold four single-family lots during the year ended September 30, 2008 and paid Kaupulehu Developments \$1,182,000 in percentage of sales payments. WB sold seven single-family lots during the year ended September 30, 2007 and paid Kaupulehu Developments \$3,585,000 in percentage of sales payments. WB sold five single-family lots during the year ended September 30, 2006 and paid Kaupulehu Developments \$3,660,000 in percentage of sales payments.

One of the lots sold by WB in fiscal 2008 and three of the lots sold by WB in fiscal 2007 were purchased by Kaupulehu 2007 under a lot purchase contract executed in January 2007 (see further discussion in Note 5 above). Percentage of sales payments received by Kaupulehu Developments from WB as a result of Kaupulehu 2007's lot purchases in fiscal 2008 and 2007 totaled \$214,000 and \$642,000, respectively. WB is not affiliated with Barnwell, Kaupulehu Developments or Kaupulehu 2007. Percentage of sales revenues resulting from Kaupulehu 2007's lot purchases were previously not eliminated. In the three months ended September 30, 2008, Barnwell concluded that its share of all such revenues should be eliminated, resulting in a \$665,000 non-cash reduction in revenues reported as Sale of interest in leasehold land, net in the Consolidated Statements of Earnings, with corresponding \$333,000 and \$332,000 reductions in the carrying value of Residential Lots Under Development and Investment in Residential Parcels, respectively, on the Consolidated Balance Sheet at September 30, 2008. Impacts on all periods affected were not material.

Revenues from percentage of sales payments and the Increment II closing payment, net of related costs, are recorded in the Consolidated Statements of Earnings for the years ended September 30, 2008, 2007 and 2006, respectively, as Sale of interest in leasehold land, net. There is no assurance that any future payments will be received.

#### Lot 4C

Lot 4C is an area of approximately 1,000 acres of vacant leasehold land zoned conservation and is located adjacent to Lot 4A. Under the terms of the Increment II Agreement, WBKD has the exclusive right to negotiate with Kaupulehu Developments with respect to Lot 4C. This right expires in June 2009 or, if WBKD completes any and all environmental assessments and surveys reasonably required to support a petition to the Hawaii State Land Use Commission for reclassification of Lot 4C zoning, in June 2012.



*Investment in Lot Acquisition Rights*

Kaupulehu Mauka Investors, LLC, a limited liability company wholly-owned by Barnwell, holds 14 lot acquisition rights as to lots within approximately 5,000 acres of agricultural-zoned leasehold land in the upland area of Kaupulehu ( Mauka Lands ) situated between the Queen Kaahumanu Highway and the Mamalahoa Highway at Kaupulehu, North Kona, island and state of Hawaii. The 14 lot acquisition rights give Barnwell the right to acquire 14 residential lots, each of which is currently estimated to be two to five acres in size, which may be developed on the Mauka Lands. These lands are currently classified as agricultural by the state of Hawaii and, accordingly, the developer of these lands (Hualalai Investors) will need to pursue both state and county of Hawaii approvals for reclassification and rezoning to permit a residential subdivision and negotiate development terms. There is no assurance that the developer of the Mauka Lands will obtain the necessary land use reclassification, rezoning, permits, approvals, and development terms and agreements needed to develop the Mauka Lands. If the developer of the Mauka Lands is unable to obtain such required land use changes, development terms and agreements with respect to the Mauka Lands and Barnwell is therefore unable to fully recover its investment in the Mauka Lands, we will incur an expense resulting from a write-off of the lot acquisition rights. The investment is evaluated for impairment whenever events or changes in circumstances indicate that the recorded investment balance may not be fully recoverable. Barnwell's cost of land interests is included in the Consolidated Balance Sheets as of September 30, 2008 and 2007 under the caption Investment in Land Interests.

*Summary of Interests*

The land interests held by Barnwell at September 30, 2008 include development rights under option, rights to receive varying percentages of the gross sales from the sale of lots within approximately 870 acres in the Kaupulehu area by WB, approximately 1,000 acres of vacant leasehold land zoned conservation ( Lot 4C ) which is under a right of negotiation with WBKD, and lot acquisition rights in agricultural-zoned leasehold land in the upland area of Kaupulehu. There is no assurance that any future development rights option payments or percentage of sales payments will be received, nor is there any assurance that WBKD will enter into an agreement with Kaupulehu Developments regarding Lot 4C. Furthermore, there is no assurance that the required land use reclassification and rezoning from regulatory agencies will be obtained nor is there any assurance that the necessary development terms and agreements will be successfully negotiated for the Mauka Lands. Barnwell's cost of land interests is included in the September 30, 2008 and 2007 Consolidated Balance Sheets under the caption Investment in Land Interests and consists of the following amounts:

|  | 2008      | September 30,    | 2007                |
|--|-----------|------------------|---------------------|
| <b>Leasehold land interests:</b>                             |           |                  |                     |
| Zoned for resort/residential development Lot 4A Increment I  | \$        |                  | \$                  |
| Zoned for resort/residential development Lot 4A Increment II |           |                  |                     |
| Zoned conservation Lot 4C                                    |           | <b>50,000</b>    | 50,000              |
|  |           | <b>50,000</b>    | 50,000              |
| Lot acquisition rights Mauka Lands                           |           | <b>1,400,000</b> | 1,400,000           |
| Development rights under option                              |           |                  |                     |
| <b>Total investment in land interests</b>                    | <b>\$</b> | <b>1,450,000</b> | <b>\$ 1,450,000</b> |

**8. INVESTMENT IN AFFILIATE**

Mauka 3K, LLC ( Mauka 3K ), a limited liability company owned by Barnwell and Nearco, a company controlled by a director of Barnwell and minority interest owner in certain of Barnwell's business ventures (see further discussion on related party interests at Note 9 below), provides real estate consulting services and invests in real estate. Barnwell and Nearco each have a 50% voting interest in Mauka 3K. Barnwell does not have a controlling interest in Mauka 3K and thus accounts for its investment utilizing the equity method of accounting. Under the equity method of accounting, Barnwell's proportionate share of its affiliate's income is included in equity in earnings of real estate affiliate.

Revenues from real estate consulting services are recognized when services have been rendered and the terms of the consulting agreement have been satisfied.

In fiscal 2006 Barnwell received net proceeds of \$1,440,000 representing its share of real estate consulting revenues, less related expenses. The net proceeds are reflected in the Consolidated Statements of Earnings for the year ended September 30, 2006 as Equity in earnings of real estate affiliate, net of tax. The tax provision related to equity in earnings of real estate affiliate was \$545,000 in fiscal 2006. There was essentially no activity in Mauka 3K during fiscal years 2008 and 2007. The investment in affiliate is included in the Consolidated Balance Sheets as of September 30, 2008 and 2007 under the caption Other current assets.

**9. RELATED PARTY TRANSACTIONS**

This section discusses certain direct and indirect relationships and transactions involving Barnwell and Mr. Terry Johnston, a director of Barnwell and minority interest owner in certain of Barnwell's business ventures.

Mr. Johnston and his affiliated entities own a direct financial interest in 19.3% of Kaupulehu Developments, a general partnership in which Barnwell has a 77.6% controlling interest. The development rights proceeds received during fiscal years 2008, 2007 and 2006 were reduced by fees of \$265,000, \$146,000 and \$173,000, respectively, the percentage of sales payment proceeds received during fiscal years 2008, 2007 and 2006 were reduced by fees of \$71,000, \$215,000 and \$220,000, respectively, and the proceeds from the Increment II closing payment received in fiscal 2006 were reduced by \$600,000 of fees; these fees were paid to Nearco, a company controlled by Mr. Terry Johnston. Under agreements entered into in 1987, prior to Mr. Johnston's election to Barnwell's Board of Directors, Barnwell's wholly-owned subsidiary, Barnwell Hawaiian Properties, Inc., a 50.1% partner of Kaupulehu Developments, is obligated to pay Nearco 2% of Kaupulehu Developments' gross receipts from real estate transactions, and Cambridge Hawaii Limited Partnership, a 49.9% partner of Kaupulehu Developments in which Barnwell purchased a 55.2% interest in April 2001, is obligated to pay Nearco 4% of Kaupulehu Developments' gross receipts from real estate transactions. The fees represent compensation for promotion and marketing of Kaupulehu Developments' property and were determined at that time based on the estimated fair value of such services.

During fiscal 2006, Barnwell entered into an agreement with Nearco to form Mauka 3K for the purpose of providing real estate consulting services and investing in real estate. Barnwell and Nearco each have a 50% voting interest in Mauka 3K. During fiscal 2006, Barnwell received net proceeds of \$1,440,000 representing its share of real estate consulting revenues, less related expenses. The net



proceeds are reflected in the Consolidated Statements of Earnings for the year ended September 30, 2006 as Equity in earnings of real estate affiliate, net of tax. The tax provision related to equity in earnings of real estate affiliate was \$545,000 in fiscal 2006. There was essentially no activity in Mauka 3K during fiscal years 2008 and 2007.

During fiscal 2007, Barnwell and Nearco entered into a limited liability limited partnership, Kaupulehu 2007, to acquire house lots for investment and to construct turnkey single-family homes. Nearco has a 20% ownership interest in Kaupulehu 2007. As noted in Note 5 above, Kaupulehu 2007 has an agreement with Mr. David Johnston, the son of Mr. Terry Johnston, under which Mr. David Johnston serves as Kaupulehu 2007's project manager. A significant provision of this agreement is that in addition to a fixed monthly fee, Mr. David Johnston will receive 20% of the sales profit which is contingent on the sale of each of the two homes under construction. During fiscal 2008, Kaupulehu 2007 paid \$94,000 in project management fees to Nearco for project management services. No such fees were paid during fiscal years 2007 or 2006. These costs are being capitalized as they are project costs associated with the development and construction of a real estate project and are included in Residential Lots Under Development on the Consolidated Balance Sheet at September 30, 2008.

Kaupulehu 2007 has borrowings under a credit facility that is guaranteed jointly and severally by Barnwell and Mr. Terry Johnston, with Mr. Terry Johnston's guarantee limited to 20% (see further discussion regarding the credit facility at Note 11 below).

In September 2007, Nearco made a \$525,000 loan to Kaupulehu 2007 to partially fund Kaupulehu 2007's acquisition of a third residential lot. The loan plus accrued interest, at a floating rate equivalent to the highest interest rate incurred by Kaupulehu 2007 on its bank debt, was payable upon Kaupulehu 2007's sale of its second completed home. During fiscal 2008, Barnwell contributed \$1,530,000 to Kaupulehu 2007 that was not matched by Nearco in proportion to its ownership interest in Kaupulehu 2007. This resulted in a \$383,000 reduction in Nearco's loan balance to \$142,000 and a corresponding increase in the minority interest liability. Kaupulehu 2007 repaid this loan, including interest of \$20,000, in full in July 2008.

Also during fiscal 2007, Nearco paid Barnwell \$553,000 to acquire a 20% minority interest in Kaupulehu Investors from Barnwell (see discussion in Note 6 above). No gain or loss was recognized by Barnwell as a result of the transaction.

General and administrative expenses include fees paid to Nearco for services related to Kaupulehu Developments' leasehold land and Kaupulehu 2007's residential property. Fees paid to Nearco by Kaupulehu Developments and Kaupulehu 2007 totaled \$63,000, \$171,000 and \$76,000, before minority interest, in fiscal 2008, 2007 and 2006, respectively. Additionally, Kaupulehu 2007 incurred fees to Nearco of \$27,000, before minority interest, in fiscal 2008 for professional services rendered in connection with Kaupulehu 2007's sale of two lot purchase rights to an unrelated party. There were no such fees incurred in fiscal years 2007 or 2006.

**10. PROPERTY AND EQUIPMENT AND ASSET RETIREMENT OBLIGATION**

Barnwell's property and equipment is detailed as follows:

|   | Estimated<br>Useful<br>Lives | Gross<br>Property and<br>Equipment | Accumulated<br>Depreciation,<br>Depletion and<br>Amortization | Net<br>Property and<br>Equipment |
|---|------------------------------|------------------------------------|---|----------------------------------|
| <b><u>At September 30, 2008:</u></b>                  |                              |                                    |   |                                  |
| Land  |                              | \$ 365,000                         | \$  | \$ 365,000                       |
| Oil and natural gas properties (full cost accounting) |                              | 197,135,000                        | (111,895,000)   | 85,240,000                       |
| Drilling rigs and equipment                           | 3 - 10 years                 | 5,524,000                          | (3,774,000)   | 1,750,000                        |
| Office  | 40 years                     | 857,000                            | (102,000)   | 755,000                          |
| Other property and equipment                          | 3 - 17 years                 | 3,791,000                          | (3,211,000)   | 580,000                          |
| <b>Total</b>  |                              | <b>\$ 207,672,000</b>              | <b>\$ (118,982,000)</b>                                       | <b>\$ 88,690,000</b>             |
| <b><u>At September 30, 2007:</u></b>                  |                              |                                    |   |                                  |
| Land  |                              | \$ 365,000                         | \$  | \$ 365,000                       |
| Oil and natural gas properties (full cost accounting) |                              | 192,054,000                        | (104,706,000)   | 87,348,000                       |
| Drilling rigs and equipment                           | 3 - 10 years                 | 5,192,000                          | (3,736,000)   | 1,456,000                        |
| Office  | 40 years                     | 857,000                            | (81,000)  | 776,000                          |
| Other property and equipment                          | 3 - 17 years                 | 3,874,000                          | (3,140,000)   | 734,000                          |
| <b>Total</b>  |                              | <b>\$ 202,342,000</b>              | <b>\$ (111,663,000)</b>                                       | <b>\$ 90,679,000</b>             |

In October 2004, the Government of Alberta enacted amendments to the Natural Gas Royalty Regulation which provide a mechanism to reduce royalties calculated through the Crown royalty system for operators of natural gas wells which have been denied the right to produce by the Alberta Energy Utilities Board as a result of recent bitumen conservation decisions. In December 2004, royalty reductions were effected by the Alberta Department of Energy's Information Letter 2004-36 which sets out the details of the royalty adjustment, the impact on the existing temporary assistance received to date by affected gas well operators, the provisions for potential recapture of the royalty adjustments, and continuation of impacted petroleum and natural gas agreements. Barnwell received a total of approximately \$259,000, \$248,000 and \$347,000 related to the aforementioned royalty adjustments for wells in the Thornbury area in fiscal years 2008, 2007 and 2006, respectively. It is Barnwell's estimation that the subject Thornbury wells will not recommence production, thus no returns to the Government of Alberta of the royalty adjustments received would be required under the recapture provisions. Accordingly, the receipts are payments for deemed production by the Government of Alberta to Barnwell for condemnation of the wells, and such receipts were credited to oil and natural gas properties for book purposes.

On October 1, 2002, Barnwell adopted SFAS No. 143, Accounting for Asset Retirement Obligations, which requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. During the year ended September 30, 2006, the asset retirement obligation was increased by \$303,000 to reflect obligations incurred on new wells drilled, increased \$302,000 for changes in the timing and amount of estimated future expenditures, increased \$199,000 for accretion of the asset retirement



obligation, decreased by \$20,000 in payments and increased by \$124,000 for changes in foreign currency translation rates. During fiscal 2007, the asset retirement obligation was increased by \$300,000 to reflect obligations incurred on new wells drilled, decreased \$7,000 for changes in the timing and amount of estimated future expenditures, increased \$232,000 for accretion of the asset retirement obligation, decreased by \$42,000 in payments, and increased by \$498,000 for changes in foreign currency translation rates. During the year ended September 30, 2008, the asset retirement obligation was increased by \$101,000 to reflect obligations incurred on new wells drilled, decreased \$232,000 for changes in the timing and amount of estimated future expenditures, increased \$314,000 for accretion of the asset retirement obligation, decreased by \$48,000 in payments, and decreased by \$304,000 for changes in foreign currency translation rates.

## 11. LONG-TERM DEBT

A summary of Barnwell's long-term debt as of September 30, 2008 and 2007 is as follows:

|   | September 30, |               |
|---|---------------|---------------|
|   | 2008          | 2007          |
| Canadian revolving credit facility        | \$ 15,000,000 | \$ 14,520,000 |
| Real estate revolving credit facility     | 11,217,000    |               |
| Real estate non-revolving credit facility |               | 6,845,000     |
| Related party loan                        |               | 525,000       |
| Drill rig financing                       |               | 568,000       |
| Less current portion                      |               | (354,000)     |
| Total long-term debt                      | \$ 26,217,000 | \$ 22,104,000 |

Barnwell has a credit facility at Royal Bank of Canada, a Canadian bank, for \$20,000,000 Canadian dollars, or approximately US\$18,870,000 at the September 30, 2008 exchange rate. Borrowings under this facility were US\$15,000,000 and US\$14,520,000 at September 30, 2008 and 2007, respectively, and are included in long-term debt. At September 30, 2008, Barnwell had unused credit available under this facility of approximately US\$3,870,000.

Subsequent to September 30, 2008, exchange rates declined, resulting in a decrease in the amount of credit available under the Canadian revolving credit facility. As of the beginning of December 2008, Barnwell had unused credit available under this facility of approximately US\$1,000,000.

The facility is available in U.S. dollars at the London Interbank Offer Rate plus 2.0%, at U.S. prime plus 0.75%, or in Canadian dollars at Canadian prime plus 0.75%. A standby fee of 0.35% per annum is charged on the unused facility balance. Under the financing agreement, the facility is reviewed annually, with the next review planned for April 2009. Subject to that review, the facility may be extended one year with no required debt repayments for one year or converted to a two-year term loan by the bank. The primary focus of the annual review is on the future cash flows that will be generated by Barnwell's Canadian oil and natural gas properties. Additionally, Royal Bank of Canada may adjust the total amount of the credit facility during its next review. If the facility is converted to a two-year term loan, Barnwell has agreed to the following repayment schedule of the then outstanding loan balance: first year of the term period 20% (5% per quarter), and in the second year of the term period 80% (5% per quarter for the first three quarters and 65% in the final quarter).



Barnwell has the option to change the currency denomination and interest rate applicable to the loan at periodic intervals during the term of the loan. During the year ended September 30, 2008, Barnwell paid interest at rates ranging from 4.20% to 6.63%. The weighted-average interest rate on the facility at September 30, 2008 was 5.70%. The facility is guaranteed by Barnwell and is collateralized by a general security agreement on all of the assets of Barnwell's oil and natural gas segment. No compensating bank balances are required for this facility.

The bank affirmed that it will not require any repayments under the facility before October 1, 2009. Accordingly, Barnwell has classified outstanding borrowings under the facility as long-term debt.

Barnwell, through its 80%-owned real estate joint venture, Kaupulehu 2007, obtained a \$7,500,000 non-revolving credit facility in fiscal 2007 to finance the acquisition of real estate parcels and a portion of the initial home construction on those parcels. In December 2007, Kaupulehu 2007 refinanced \$6,600,000 of the \$7,068,000 outstanding borrowings under the facility with a new revolving credit facility from another financial institution. The new facility provides \$16,000,000 of credit under a revolving line of credit for the purpose of refinancing the acquisition of three parcels purchased in fiscal 2007, financing the acquisition of a fourth parcel purchased in January 2008, and financing costs of home construction on the said four lots. Under the terms of the facility, financing for home construction is limited to a maximum of two unsold homes under construction at any given time. The term of the loan is 36 months and advances shall not exceed: (i) 75% of the appraised as-is value of each parcel, or (ii) 80% of the appraised value of the completed home and parcel for each home under construction. The interest rate available for borrowings under this facility is a floating rate equal to the financial institution's floating base rate or the one-month London Interbank Offer Rate plus 2.50%. Kaupulehu 2007 will be required to make a principal payment upon the sale of a home and lot in an amount equal to 100% of the net sales proceeds of the home and lot; the loan agreement defines net sales proceeds as the gross sales price of the home and lot, less reasonable real estate commissions, closing costs, and fees of the building contractor and project manager, as approved by the financial institution. The credit facility, which is fully guaranteed by Barnwell and guaranteed 20% by Mr. Terry Johnston, is collateralized by, among other things, a first mortgage lien on the parcels and homes to be built. Kaupulehu 2007 incurred a 1% loan commitment fee totaling \$160,000. Borrowings under the facility are subject to a loan advance limitation based on the appraised value of the underlying security. The loan advance limitation may be reduced as a result of a decrease in appraised values of the underlying security. If borrowings under the facility exceed the loan advance limitation, Barnwell will be required to make debt repayments in the amount of the excess.

At September 30, 2008, Kaupulehu 2007's borrowings under the credit facility were \$11,217,000. The facility expires in December 2010. Accordingly, the \$11,217,000 is classified as long-term debt on the Consolidated Balance Sheet at September 30, 2008. At September 30, 2008, Barnwell had unused credit available under this facility of approximately \$4,783,000. The \$428,000 portion of the outstanding loan balance under the non-revolving facility that was not refinanced was repaid in full in July 2008.

Kaupulehu 2007 capitalizes interest costs on residential lots under development while development and construction is in progress and includes these costs in cost of sales when homes are sold. Capitalized interest costs totaled \$394,000 and \$142,000 for the years ended September 30, 2008 and 2007, respectively.

As also discussed in Note 9 above, Nearco made a \$525,000 loan to Kaupulehu 2007 to partially fund Kaupulehu 2007's acquisition of a third residential lot in September 2007. The loan plus accrued interest, at a floating rate equivalent to the highest interest rate incurred by Kaupulehu 2007 on its bank debt, was payable upon Kaupulehu 2007's sale of its second completed home. During fiscal 2008, Barnwell contributed \$1,530,000 to Kaupulehu 2007 that was not matched by Nearco in proportion to its ownership interest in Kaupulehu 2007. This resulted in a non-cash \$383,000 reduction in Nearco's loan balance to \$142,000 and a corresponding increase in the minority interest liability. Kaupulehu 2007 repaid this loan, including interest of \$20,000, in full in July 2008.

In March 2007, Barnwell completed an agreement to purchase a contract drilling rig for \$731,000, \$620,000 of which was financed by a bank loan. The loan was obtained for a term of five years commencing in April 2007 with payments of \$13,000 due monthly at an interest rate of 7.75%. Barnwell repaid this loan in full in August 2008.

Interest costs for the fiscal years ended September 30, 2008, 2007 and 2006 are summarized as follows:

|   | Year ended September 30, |              |            |
|---|--------------------------|--------------|------------|
|   | 2008                     | 2007         | 2006       |
| Interest costs incurred   | \$ 1,437,000             | \$ 1,141,000 | \$ 833,000 |
| Less interest costs capitalized on residential lots under development | 394,000                  | 142,000      |            |
| Interest expense  | \$ 1,043,000             | \$ 999,000   | \$ 833,000 |

## 12. SEGMENT AND GEOGRAPHIC INFORMATION

Barnwell operates four segments: 1) exploring for, developing, producing and selling oil and natural gas in Canada (oil and natural gas); 2) investing in leasehold land and other real estate interests in Hawaii (land investment); 3) drilling wells and installing and repairing water pumping systems in Hawaii (contract drilling); and 4) acquiring property for investment and development of homes for sale in Hawaii (residential real estate, established January 2007).

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

|  | Year ended September 30, |               |               |
|--|--------------------------|---------------|---------------|
|  | 2008                     | 2007          | 2006          |
| <b>Revenues:</b>   |                          |               |               |
| Oil and natural gas  | \$ 49,441,000            | \$ 34,599,000 | \$ 37,904,000 |
| Land investment  | 4,607,000                | 5,662,000     | 12,339,000    |
| Contract drilling  | 9,787,000                | 5,993,000     | 5,866,000     |
| Residential real estate  | 443,000                  |               |               |
| Other  | 1,108,000                | 867,000       | 765,000       |
| Total before gain on sale and interest income                                | 65,386,000               | 47,121,000    | 56,874,000    |
| Gain on sale of drill rig  |                          |               | 700,000       |
| Interest income  | 258,000                  | 315,000       | 386,000       |
| Total revenues   | \$ 65,644,000            | \$ 47,436,000 | \$ 57,960,000 |
| <b>Depreciation, depletion and amortization:</b>                             |                          |               |               |
| Oil and natural gas  | \$ 14,150,000            | \$ 12,753,000 | \$ 11,130,000 |
| Contract drilling  | 392,000                  | 224,000       | 189,000       |
| Other  | 184,000                  | 197,000       | 258,000       |
| Total depreciation, depletion and amortization                               | \$ 14,726,000            | \$ 13,174,000 | \$ 11,577,000 |
| <b>Operating profit (before general and administrative expenses):</b>        |                          |               |               |
| Oil and natural gas  | \$ 24,710,000            | \$ 11,643,000 | \$ 18,557,000 |
| Land investment, net of minority interest                                    | 3,454,000                | 4,424,000     | 9,420,000     |
| Contract drilling  | 1,711,000                | 830,000       | 968,000       |
| Residential real estate, net of minority interest                            | 354,000                  |               |               |
| Other  | 924,000                  | 670,000       | 507,000       |
| Total operating profit   | 31,153,000               | 17,567,000    | 29,452,000    |
| General and administrative expenses, net of minority interest                | (12,297,000)             | (10,207,000)  | (11,508,000)  |
| Bad debt expense   | (1,091,000)              |               |               |
| Interest expense, net of minority interest                                   | (1,007,000)              | (999,000)     | (833,000)     |
| Interest income  | 258,000                  | 315,000       | 386,000       |
| Gain on sale of drill rig  |                          |               | 700,000       |
| Earnings before income taxes and equity in earnings of real estate affiliate | \$ 17,016,000            | \$ 6,676,000  | \$ 18,197,000 |
| <b>Capital expenditures:</b>   |                          |               |               |
| Oil and natural gas  | \$ 17,662,000            | \$ 14,164,000 | \$ 25,949,000 |
| Contract drilling  | 658,000                  | 1,230,000     | 247,000       |
| Other  | 52,000                   | 84,000        | 178,000       |
| Total  | \$ 18,372,000            | \$ 15,478,000 | \$ 26,374,000 |

Depletion per 1,000 cubic feet ( MCF ) of natural gas and natural gas equivalent ( MCFE ), converted at a rate of one barrel of oil and natural gas liquids to 5.8 MCFE, was \$2.89 in fiscal 2008, \$2.49 in fiscal 2007, and \$2.17 in fiscal 2006. The escalating depletion rate is the result of increased costs of finding and developing proven reserves, as compared to prior years, as well as increases in the average exchange rate of the Canadian dollar to the U.S. dollar of 10% in fiscal 2008, as compared to fiscal 2007, and 3% in fiscal 2007, as compared to fiscal 2006.

*Assets By Segment:*

|                             | September 30,  |      | September 30,  |      |
|-----------------------------|----------------|------|----------------|------|
|                             | 2008           | 2007 | 2008           | 2007 |
| Oil and natural gas (1)     | \$ 91,673,000  | 69%  | \$ 94,243,000  | 76%  |
| Land investment (2)         | 1,450,000      | 1%   | 1,450,000      | 1%   |
| Residential real estate (2) | 13,784,000     | 11%  | 8,192,000      | 7%   |
| Contract drilling (2)       | 5,005,000      | 4%   | 4,358,000      | 3%   |
| Other:                      |                |      |                |      |
| Cash and cash equivalents   | 13,618,000     | 10%  | 10,107,000     | 8%   |
| Corporate and other         | 6,832,000      | 5%   | 6,215,000      | 5%   |
| Total                       | \$ 132,362,000 | 100% | \$ 124,565,000 | 100% |

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

(2) Located in Hawaii.

*Long-Lived Assets By Geographic Area:*

|               | September 30, |      | September 30, |      |
|---------------|---------------|------|---------------|------|
|               | 2008          | 2007 | 2008          | 2007 |
| United States | \$ 4,651,000  | 5%   | \$ 4,484,000  | 5%   |
| Canada        | 85,489,000    | 95%  | 87,645,000    | 95%  |
| Total         | \$ 90,140,000 | 100% | \$ 92,129,000 | 100% |

*Revenue By Geographic Area:*

|   | Year ended September 30, |               |               |
|---|--------------------------|---------------|---------------|
|   | 2008                     | 2007          | 2006          |
| United States   | \$ 15,211,000            | \$ 11,896,000 | \$ 18,425,000 |
| Canada  | 50,175,000               | 35,225,000    | 38,449,000    |
| Total (excluding interest income and gain on sale of drill rig) | \$ 65,386,000            | \$ 47,121,000 | \$ 56,874,000 |

13. **TAXES ON INCOME**

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The components of earnings before income taxes are as follows:

|   | 2008           | Year ended September 30, | 2007      | 2006          |
|---|----------------|--------------------------|-----------|---------------|
| Earnings (loss) before income taxes in: |                |                          |           |               |
| United States                           | \$ (1,327,000) | \$                       | 45,000    | \$ 4,008,000  |
| Canada                                  | 18,343,000     | \$                       | 6,631,000 | 14,189,000    |
|   | \$ 17,016,000  | \$                       | 6,676,000 | \$ 18,197,000 |

The components of the income tax provision related to the above earnings are as follows:

|                                      | 2008                | Year ended September 30, |  | 2006         |
|--------------------------------------|---------------------|--------------------------|--|--------------|
|                                      |                     | 2007                     |  |              |
| <b>Current provision:</b>            |                     |                          |  |              |
| United States Federal                | \$ 76,000           | \$ 260,000               |  | \$ 723,000   |
| United States State                  | 54,000              | 1,000                    |  | 235,000      |
|                                      | <b>130,000</b>      | 261,000                  |  | 958,000      |
| Canadian                             | <b>7,558,000</b>    | 1,443,000                |  | 2,335,000    |
| <b>Total current</b>                 | <b>7,688,000</b>    | 1,704,000                |  | 3,293,000    |
| <b>Deferred provision (benefit):</b> |                     |                          |  |              |
| United States                        | <b>(855,000)</b>    | 765,000                  |  | (555,000)    |
| Canadian                             | <b>(1,549,000)</b>  | 691,000                  |  | 1,717,000    |
| <b>Total deferred</b>                | <b>(2,404,000)</b>  | 1,456,000                |  | 1,162,000    |
|                                      | <b>\$ 5,284,000</b> | \$ 3,160,000             |  | \$ 4,455,000 |

During the first quarter of fiscal 2008, the Canadian government enacted reductions in the corporate tax rate from 20.5%, 20.0%, 19.0%, 18.5% and 18.5% in calendar years 2008, 2009, 2010, 2011 and 2012, respectively, to 19.5%, 19.0%, 18.0%, 16.5% and 15%, respectively. This reduction in Canadian federal tax rates resulted in a \$909,000 reduction of the net deferred tax liability during fiscal 2008. Barnwell's effective consolidated income tax rate for the year ended September 30, 2008, excluding the aforementioned \$909,000 impact of the reduction in Canadian income tax rates, was approximately 36%.

Included in the provision for income taxes for fiscal 2006 is a Canadian deferred tax benefit of \$1,094,000 resulting from reductions in Canadian tax rates. Also included in the provision for income taxes for fiscal 2006 is the recognition of a deferred income tax benefit of \$4,130,000 due to a reduction in the valuation allowance for foreign tax credit carryforwards. There were no reductions in the valuation allowance for foreign tax credit carryforwards in fiscal 2008 or 2007. A minor reduction in Canadian federal tax rates in fiscal 2007 resulted in a \$100,000 reduction in net deferred tax liabilities in fiscal 2007.

Due to differences in the statutory deduction rates for Barnwell's Canadian oil and natural gas capital expenditures under Canadian law as compared to such deductions under U.S. tax law, Barnwell has incurred higher U.S. tax liabilities on Canadian source earnings than Canadian tax liabilities on such earnings in recent years. As a result, Barnwell has utilized its foreign tax credit carryforwards in recent years, and Barnwell estimates that it will fully utilize its remaining foreign tax credit carryforward.

In fiscal 2008 and 2007, Barnwell recorded tax benefits of \$192,000 and \$203,000, respectively, related to employees' disqualification of qualified stock options which were reflected as increases in additional paid-in capital. There was no such tax benefit related to stock option disqualifications in fiscal 2006.



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A reconciliation between the reported provision for income taxes and the amount computed by multiplying the earnings before income taxes by the U.S. federal tax rate of 35% is as follows:

|  | 2008         | Year ended September 30,<br>2007 | 2006         |
|--|--------------|----------------------------------|--------------|
| Tax expense computed by applying statutory rate  | \$ 5,956,000 | \$ 2,336,000                     | \$ 6,369,000 |
| Effect of reduction of Canadian tax rates on Canadian deferred taxes   | (909,000)    | (100,000)                        | (1,094,000)  |
| Effect of the foreign tax provision, excluding effect of reduction in Canadian tax rates, on the total tax provision | (12,000)     | 672,000                          | 2,689,000    |
| State income taxes   | 54,000       | 1,000                            | 235,000      |
| Effect of reduction of the valuation allowance for foreign tax credit carryforwards                                  |              |                                  | (4,130,000)  |
| State net operating losses utilized  |              |                                  | 45,000       |
| Other  | 195,000      | 251,000                          | 341,000      |
|  | \$ 5,284,000 | \$ 3,160,000                     | \$ 4,455,000 |

Equity in earnings of real estate affiliate is shown net of income taxes in the Consolidated Statement of Earnings for fiscal 2006. The tax provision relating to equity in earnings of real estate affiliate was \$545,000 in fiscal 2006, representing a 38% effective tax rate.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at September 30, 2008 and 2007 are as follows:

|  | September 30,   |                 |
|--|-----------------|-----------------|
|  | 2008            | 2007            |
| Deferred income tax assets:  |                 |                 |
| U.S. tax effect of deferred Canadian taxes   | \$ 3,878,000    | \$ 4,662,000    |
| Foreign tax credit carryforwards   | 122,000         | 290,000         |
| Tax basis of investment in land and residential real estate in excess of book basis                        | 507,000         | 473,000         |
| Liabilities accrued for books but not for tax under U.S. tax law   | 3,036,000       | 3,237,000       |
| Liabilities accrued for books but not for tax under Canadian tax law                                       | 1,210,000       | 1,506,000       |
| Bad debt allowance for books but not for tax under U.S. tax law  | 374,000         |                 |
| Bad debt allowance for books but not for tax under Canadian tax law  | 269,000         |                 |
| Other  | 621,000         | 506,000         |
| Total gross deferred tax assets  | 10,017,000      | 10,674,000      |
| Less valuation allowance   | (5,918,000)     | (6,564,000)     |
| Net deferred income tax assets   | 4,099,000       | 4,110,000       |
| Deferred income tax liabilities:   |                 |                 |
| Property and equipment accumulated tax depreciation and depletion in excess of book under Canadian tax law | (12,885,000)    | (15,216,000)    |
| Property and equipment accumulated tax depreciation and depletion in excess of book under U.S. tax law     | (3,205,000)     | (5,946,000)     |
| Other  | (250,000)       | (76,000)        |
| Total deferred income tax liabilities  | (16,340,000)    | (21,238,000)    |
| Net deferred income tax liability  | \$ (12,241,000) | \$ (17,128,000) |

The total valuation allowance decreased \$646,000 for the year ended September 30, 2008 and increased \$405,000 for the year ended September 30, 2007. The change in the valuation allowance in fiscal 2008 relates primarily to the U.S. tax effects of a decrease in deferred Canadian taxes while the change in the valuation allowance in fiscal 2007 relates primarily to the U.S. tax effect of an increase in deferred Canadian taxes.

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized. Barnwell has established a valuation allowance primarily for the U.S. tax effect of deferred Canadian taxes, accrued liabilities, bad debt allowances and state of Hawaii net operating loss carryforwards which may not be realizable in future years as there can be no assurance of any specific level of earnings, that the timing of U.S. taxable income will coincide with the payment of Canadian taxes to enable Canadian taxes to be fully deducted (or recoverable) for U.S. tax purposes, or that Canadian deferred tax assets will provide any incremental benefit for U.S. tax purposes over the amount of benefit for Canadian tax purposes.

Net deferred tax assets at September 30, 2008 of \$4,099,000 consists primarily of \$3,092,000 related to liabilities accrued for book purposes but not for tax purposes, \$507,000 related to the excess of the cost basis of investment in land and residential real estate for tax purposes over the cost basis of investment in land and residential real estate for book purposes, \$352,000 related to allowance for doubtful accounts, and \$122,000 for foreign tax credit carryforwards. Canadian deferred tax assets related to liabilities accrued for book purposes but not for tax purposes are estimated to be realized through future Canadian income tax deductions against future Canadian oil and natural gas earnings. U.S. deferred tax assets related to liabilities accrued for book purposes but not for tax purposes and the excess of the cost basis of investment in land and residential real estate for tax purposes over the cost basis of investment in land and residential real estate for book purposes are estimated to be realized from deductions against future U.S. earnings from percentage of sales payments, sales of interests in leasehold land, sales of land development rights, and sales of residential real estate. Foreign tax credit carryforwards are estimated to be utilized when U.S. federal income taxes otherwise due on Canadian source income in a given year exceeds the foreign tax credit generated in that year. At September 30, 2008, foreign tax credit carryforwards totaled \$122,000 and expire in fiscal 2015; management currently estimates that all of the foreign tax credit carryforwards will be utilized before expiration. The amount of deferred income tax assets considered realizable may be reduced if estimates of future taxable income are reduced.

In June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109. This interpretation prescribes a threshold for recognizing the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by a taxing authority. Recognized tax positions are initially and subsequently measured as the largest amount of tax benefit that is more likely than not of being realized upon ultimate settlement with a taxing authority on a jurisdiction-by-jurisdiction basis. Liabilities for unrecognized tax benefits related to such tax positions are included in long-term liabilities unless the tax position is expected to be settled within the upcoming year, in which case the liabilities are included in current liabilities. Interest and penalties related to unrecognized tax benefits are included in income tax expense. Assets for any offsetting foreign tax credit benefits in the U.S. related to liabilities for foreign unrecognized tax benefits are included in current or long-term receivables depending upon the estimated timing of settlement. Effective October 1, 2007, Barnwell adopted the provisions of FIN No. 48. The initial adoption of FIN No. 48 did not have a material impact on Barnwell's financial statements.

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

In January 2008, the U.S. Internal Revenue Service notified Barnwell that it would examine Barnwell's U.S. consolidated income tax return for fiscal 2006. In June 2008, the Canada Revenue Agency notified Barnwell that it would examine Barnwell of Canada, Limited's Canadian federal income tax returns for fiscal 2005 and 2006. Both examinations were in progress as of September 30, 2008. As a result of tax authority interactions in the three months ended September 30, 2008, Barnwell has provided for unrecognized tax benefits during fiscal 2008 as follows:

|  |    |           |
|--|----|-----------|
| Balance as of October 1, 2007                        | \$ |           |
| Additions for tax positions taken during prior years |    | 981,000   |
| Accrued interest                                     |    | 298,000   |
| Foreign tax credit benefits for U.S. taxes           |    | (922,000) |
| Balance as of September 30, 2008                     | \$ | 357,000   |

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$357,000.

Unrecognized tax benefits consist primarily of Canadian federal and provincial audit issues that involve the timing of oil and natural gas capital expenditure deductions and transfer pricing adjustments. Because of a lack of clarity and uniformity regarding allowable transfer pricing valuations by differing jurisdictions, it is reasonably possible that the total amount of unrecognized tax benefits and any offsetting foreign tax credit benefits may significantly increase or decrease within the next fiscal year, and the estimated range of any such variance is not currently estimable based upon facts and circumstances as of September 30, 2008.

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

| Jurisdiction               | Fiscal Years Open |      |
|----------------------------|-------------------|------|
|                            | 2005              | 2007 |
| U.S. federal               | 2005              | 2007 |
| Various U.S. states        | 2005              | 2007 |
| Canada federal             | 2001              | 2007 |
| Various Canadian provinces | 2001              | 2007 |

#### 14. RETIREMENT PLANS

Barnwell sponsors a noncontributory defined benefit pension plan ( Pension Plan ) covering substantially all of its U.S. employees, with benefits based on years of service and the employee's highest consecutive five-year average earnings. Barnwell's funding policy is intended to provide for both benefits attributed to service to date and for those expected to be earned in the future. In addition, Barnwell sponsors a Supplemental Employee Retirement Plan ( SERP ), a noncontributory supplemental retirement benefit plan which covers certain current and former employees of Barnwell for amounts exceeding the limits allowed under the defined benefit pension plan. In December 2006, Barnwell adopted a postretirement medical insurance benefits plan ( Postretirement Medical ) covering U.S. employees who have attained at least 20 years of service with Barnwell and served at least 10 years at the position of Vice President or higher. Health benefits are also provided to spouses and qualifying dependents of eligible officers.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires an employer to recognize the over-funded or under-funded status



of defined benefit pension and other postretirement plans (collectively referred to as retirement plans ) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also requires the measurement of retirement plan assets and obligations as of the date of the fiscal year-end statement of financial position and provide additional disclosures. Barnwell adopted the recognition and disclosure provisions of SFAS No. 158 on September 30, 2007.

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

|  | Pension      |              | SERP<br>September 30, |            | Postretirement Medical |           |
|--|--------------|--------------|-----------------------|------------|------------------------|-----------|
|  | 2008         | 2007         | 2008                  | 2007       | 2008                   | 2007      |
| <i>Change in Projected Benefit Obligation:</i> |              |              |                       |            |                        |           |
| Benefit obligation at beginning of year        | \$ 4,702,000 | \$ 4,558,000 | \$ 722,000            | \$ 655,000 | \$ 861,000             | \$        |
| Service cost                                   | 221,000      | 214,000      | 36,000                | 35,000     | 10,000                 | 9,000     |
| Interest cost                                  | 290,000      | 260,000      | 46,000                | 40,000     | 52,000                 | 43,000    |
| Plan amendment                                 |              |              |                       |            |                        | 942,000   |
| Actuarial gain                                 | (782,000)    | (192,000)    | (128,000)             | (2,000)    | (219,000)              | (133,000) |
| Benefits paid                                  | (121,000)    | (130,000)    | (6,000)               | (6,000)    |                        |           |
| Administrative expenses paid                   | (11,000)     | (8,000)      |                       |            |                        |           |
| Benefit obligation at end of year              | 4,299,000    | 4,702,000    | 670,000               | 722,000    | 704,000                | 861,000   |

|  |              |              |              |              |              |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| <i>Change in Plan Assets:</i>                  |              |              |              |              |              |              |
| Fair value of plan assets at beginning of year | 3,893,000    | 3,415,000    |              |              |              |              |
| Actual return on plan assets                   | (584,000)    | 366,000      |              |              |              |              |
| Employer contribution                          | 450,000      | 250,000      | 6,000        | 6,000        |              |              |
| Benefits paid                                  | (121,000)    | (130,000)    | (6,000)      | (6,000)      |              |              |
| Administrative expenses paid                   | (11,000)     | (8,000)      |              |              |              |              |
| Fair value of plan assets at end of year       | 3,627,000    | 3,893,000    |              |              |              |              |
| Funded status                                  | \$ (672,000) | \$ (809,000) | \$ (670,000) | \$ (722,000) | \$ (704,000) | \$ (861,000) |

|   | Pension      |              | SERP<br>September 30, |              | Postretirement Medical |              |
|---|--------------|--------------|-----------------------|--------------|------------------------|--------------|
|   | 2008         | 2007         | 2008                  | 2007         | 2008                   | 2007         |
| <i>Amounts recognized in the Consolidated Balance Sheets:</i> |              |              |                       |              |                        |              |
| Current assets  | \$           | \$           | \$                    | \$           | \$                     | \$           |
| Current liabilities   |              |              | (5,000)               | (5,000)      |                        |              |
| Noncurrent liabilities  | (672,000)    | (809,000)    | (665,000)             | (717,000)    | (704,000)              | (861,000)    |
| Net amount  | \$ (672,000) | \$ (809,000) | \$ (670,000)          | \$ (722,000) | \$ (704,000)           | \$ (861,000) |

*Amounts recognized in accumulated other*

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*comprehensive (income)*

|   |    |                  |    |           |    |                 |    |          |    |                  |    |           |
|---|----|------------------|----|-----------|----|-----------------|----|----------|----|------------------|----|-----------|
| <i>loss:</i>                                  |    |                  |    |           |    |                 |    |          |    |                  |    |           |
| Net loss (gain)                               | \$ | <b>996,000</b>   | \$ | 917,000   | \$ | <b>78,000</b>   | \$ | 214,000  | \$ | <b>(348,000)</b> | \$ | (133,000) |
| Prior service cost (credit)                   |    | <b>114,000</b>   |    | 120,000   |    | <b>(80,000)</b> |    | (75,000) |    | <b>692,000</b>   |    | 828,000   |
| Accumulated other comprehensive (income) loss | \$ | <b>1,110,000</b> | \$ | 1,037,000 | \$ | <b>(2,000)</b>  | \$ | 139,000  | \$ | <b>344,000</b>   | \$ | 695,000   |

For the fiscal years ended September 30, 2008 and 2007, the following weighted-average assumptions were used to determine benefit obligations at the end of the fiscal years:

|   | Pension |       | SERP<br>September 30, |       | Postretirement Medical |       |
|---|---------|-------|-----------------------|-------|------------------------|-------|
|   | 2008    | 2007  | 2008                  | 2007  | 2008                   | 2007  |
| <i>Assumptions used to determine the fiscal year-end benefit obligations:</i> |         |       |                       |       |                        |       |
| Discount rate   | 7.25%   | 6.00% | 7.25%                 | 6.00% | 7.25%                  | 6.00% |
| Rate of compensation increase   | 5.00%   | 5.00% | 5.00%                 | 5.00% | N/A                    | N/A   |

The overall investment objective of the Pension Plan is to provide growth in the assets of the plan to fund future benefit obligations while managing risk in order to meet current benefit obligations. To develop the expected long-term rate of return on assets assumption, historical returns and the future expectations for returns for each asset class were considered. Generally, principal repayments and interest received on government mortgage securities provide cash flows to fund current benefit obligations. Longer-term obligations are generally estimated to be provided for by growth in equity securities. The plan assets at September 30, 2008 were invested as follows: 23% in cash, 25% in debt securities, and 52% in equity securities. The plan assets at September 30, 2007 were invested as follows: 12% in cash, 38% in debt securities, and 50% in equity securities. Target asset allocations are not used, and allocations are adjusted from time to time as dictated by current and anticipated market conditions and required cash flows.

Barnwell contributed \$450,000 to the Pension Plan in fiscal 2008. Barnwell estimates that it will make approximately \$400,000 in contributions to the pension plan during fiscal 2009. Barnwell does not expect to make any benefit payments under the Postretirement Medical plan during fiscal 2009. 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.

Barnwell's assets related to its retirement plans have been adversely impacted by the performance of the equity markets in recent months, especially since September 30, 2008. Subsequent to September 30, 2008, the pension plan's assets declined approximately \$450,000 in value. Such losses will likely cause an increase in Barnwell's pension expense in future years.



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For the fiscal years ended September 30, 2008, 2007 and 2006, the following weighted-average assumptions were used to determine net periodic benefit cost for the fiscal years shown:

|   | Pension |       |       | SERP<br>Year ended September 30, |       |       | Postretirement Medical |       |      |
|---|---------|-------|-------|----------------------------------|-------|-------|------------------------|-------|------|
|   | 2008    | 2007  | 2006  | 2008                             | 2007  | 2006  | 2008                   | 2007  | 2006 |
| <i>Assumptions used to determine the net periodic benefit cost:</i> |         |       |       |                                  |       |       |                        |       |      |
| Discount rate   | 6.00%   | 5.50% | 5.25% | 6.00%                            | 5.50% | 5.25% | 6.00%                  | 5.50% | N/A  |
| Expected return on plan assets                                      | 8.00%   | 8.00% | 8.00% | N/A                              | N/A   | N/A   | N/A                    | N/A   | N/A  |
| Rate of compensation increase                                       | 5.00%   | 5.00% | 5.00% | 5.00%                            | 5.00% | 5.00% | N/A                    | N/A   | N/A  |

The components of net periodic benefit cost are as follows:

|  | Pension    |            |            | SERP<br>Year ended September 30, |           |           | Postretirement Medical |            |      |
|--|------------|------------|------------|----------------------------------|-----------|-----------|------------------------|------------|------|
|  | 2008       | 2007       | 2006       | 2008                             | 2007      | 2006      | 2008                   | 2007       | 2006 |
| <i>Net periodic benefit cost for the year:</i> |            |            |            |                                  |           |           |                        |            |      |
| Service cost                                   | \$ 221,000 | \$ 214,000 | \$ 206,000 | \$ 36,000                        | \$ 35,000 | \$ 36,000 | \$ 10,000              | \$ 9,000   | \$   |
| Interest cost                                  | 290,000    | 260,000    | 226,000    | 46,000                           | 40,000    | 39,000    | 52,000                 | 43,000     |      |
| Expected return on plan assets                 | (305,000)  | (268,000)  | (182,000)  |                                  |           |           |                        |            |      |
| Recognized net actuarial gain                  |            |            |            |                                  |           |           | (4,000)                |            |      |
| Amortization of prior service cost             | 6,000      | 5,000      | 1,000      | 4,000                            | 4,000     | 10,000    | 136,000                | 114,000    |      |
| Amortization of net actuarial loss             | 28,000     | 45,000     | 48,000     | 8,000                            | 10,000    | 10,000    |                        |            |      |
| Net periodic benefit cost                      | \$ 240,000 | \$ 256,000 | \$ 299,000 | \$ 94,000                        | \$ 89,000 | \$ 95,000 | \$ 194,000             | \$ 166,000 | \$   |

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

|                    | Pension   | SERP     | Postretirement Medical |
|--------------------|-----------|----------|------------------------|
| Prior service cost | \$ 5,000  | \$ 4,000 | \$ 136,000             |
| Net loss (gain)    | 25,000    |          | (27,000)               |
|                    | \$ 30,000 | \$ 4,000 | \$ 109,000             |

The accumulated benefit obligation differs from the projected benefit obligation in that it assumes future compensation levels will remain unchanged. The accumulated benefit obligation for the pension plan was \$2,958,000 and \$3,165,000 at September 30, 2008 and 2007, respectively. The accumulated benefit obligation for the SERP was \$389,000 and \$406,000 at September 30, 2008 and 2007, respectively.

The benefits expected to be paid under the retirement plans as of September 30, 2008 are as follows:

|   | Pension      | SERP      | Postretirement Medical |
|---|--------------|-----------|------------------------|
| <i>Expected Benefit Payments:</i>                   |              |           |                        |
| Fiscal year ending September 30, 2009               | \$ 145,000   | \$ 5,000  | \$                     |
| Fiscal year ending September 30, 2010               | \$ 137,000   | \$ 5,000  | \$ 11,000              |
| Fiscal year ending September 30, 2011               | \$ 128,000   | \$ 4,000  | \$ 12,000              |
| Fiscal year ending September 30, 2012               | \$ 119,000   | \$ 4,000  | \$ 13,000              |
| Fiscal year ending September 30, 2013               | \$ 111,000   | \$ 3,000  | \$ 15,000              |
| Fiscal years ending September 30, 2014 through 2018 | \$ 1,143,000 | \$ 52,000 | \$ 119,000             |

The following provides the assumed health care cost trend rates related to the measurement of Barnwell's postretirement medical obligations for fiscal years ended September 30, 2008, 2007 and 2006.

|  | 2008 | Year ended September 30,<br>2007 | 2006 |
|--|------|----------------------------------|------|
| Health care cost trend rates assumed for next year | 8.5% | 9.0%                             | N/A  |
| Ultimate cost trend rate                           | 6.0% | 6.0%                             | N/A  |
| Year that the rate reaches the ultimate trend rate | 2014 | 2010                             | N/A  |

The assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement medical obligations. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

|  | 1-Percentage Point Increase | 1-Percentage Point (Decrease) |
|--|-----------------------------|-------------------------------|
| Effect on total service and interest cost components     | \$ 19,000                   | \$ (14,000)                   |
| Effect on accumulated postretirement benefit obligations | \$ 176,000                  | \$ (132,000)                  |

In 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ( Act ) was signed into law. The Act introduced a prescription drug benefit under Medicare as well as a potential federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D to help offset the costs of participant prescription drug benefits. Any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the consolidated financial statements or accompanying notes for fiscal 2008 do not reflect the effects of the Act on the Postretirement Medical insurance benefits plan.

**15. SHARE REPURCHASE PROGRAM**

In December 2005, Barnwell's Board of Directors authorized the purchase of up to 250,000 shares of its common stock in the open market or in privately negotiated transactions. On September 20, 2007, the Board of Directors authorized a stock repurchase program in the open market of up to 150,000 shares of these 250,000 shares during the period commencing on September 24, 2007 and ending on March 24, 2008. During the year ended September 30, 2007, Barnwell repurchased 10,000 shares for an aggregate purchase price of \$155,000, or approximately \$15.50 per share, pursuant to the plan. From October 1, 2007 to March 24, 2008, Barnwell repurchased 106,500 shares of its common stock for \$1,597,000, or approximately \$15.00 per share. Of these amounts, 71,500 shares were purchased for \$1,063,000, or approximately \$14.87 per share, on the open market under the September 20, 2007 authorization, and 35,000 shares were purchased for \$15.25 per share, the closing market price on the date of the transaction, or approximately \$534,000, in a privately negotiated transaction with an officer/director of Barnwell.

In August 2008, the Board of Directors authorized the Company to acquire in the open market, from time-to-time commencing on August 18, 2008 and ending on December 31, 2008, and in accordance with applicable laws, rules and regulations, up to 150,000 shares of the Company's common stock. From August 18, 2008 to September 30, 2008, Barnwell repurchased 26,600 shares of its common stock for \$295,000, or approximately \$11.10 per share. As of September 30, 2008, there were 123,400 shares available for repurchase under the August 2008 authorization.

**16. COMMITMENTS AND CONTINGENCIES**

Barnwell has committed to compensate certain Canadian personnel pursuant to an incentive compensation plan, the value of which directly relates to Barnwell's oil and natural gas segment's net income and the value of Barnwell's oil and natural gas reserves discovered, commencing in fiscal 2002, for projects developed by such personnel. Barnwell recognized approximately \$416,000, \$495,000 and \$359,000 of costs pursuant to this plan in fiscal 2008, 2007 and 2006, respectively.

Barnwell has several non-cancelable operating leases for office space and leasehold land. Rental expense was \$649,000 in 2008, \$598,000 in 2007, and \$528,000 in 2006. Barnwell is committed under these leases for minimum rental payments summarized by fiscal year as follows: 2009 - \$604,000, 2010 - \$575,000, 2011 - \$516,000, 2012 - \$503,000, 2013 - \$514,000 and thereafter through 2026 an aggregate of \$1,154,000. The lease payments for land were subject to renegotiation as of January 1, 2006. Per the lease agreement, the lease payments will remain unchanged pending an appraisal, whereupon the lease rent could be adjusted to fair market value. Barnwell does not know the amount of the new lease payments which could be effective upon performance of the appraisal; they may remain unchanged or increase, and Barnwell currently expects the adjustment, if any, to not be material. The future rental payment disclosures above assume the minimum lease payments for land in effect at December 31, 2005 remain unchanged through December 2025, the end of the lease term.

Barnwell is committed to pay fees to Nearco, a company controlled by Mr. Terry Johnston, a director of Barnwell and minority interest owner in certain of Barnwell's business ventures (see further discussion on related party interests at Note 9 above). Under an agreement entered into in 1987, prior to Mr. Johnston's election to Barnwell's Board of Directors, Barnwell is obligated to pay Nearco 2% of Kaupulehu Developments gross receipts from real estate transactions, and Cambridge Hawaii Limited Partnership, a 49.9% partner of Kaupulehu Developments in which Barnwell purchased a 55.2%

interest in April 2001, is obligated under an agreement entered into in 1987 to pay Nearco 4% of Kaupulehu Developments' gross receipts from real estate transactions. The fees represent compensation for promotion and marketing of Kaupulehu Developments' property and were determined based on the estimated fair value of such services.

In conjunction with the closing of the Increment II transaction in fiscal 2006, Kaupulehu Developments entered into an agreement to pay its external real estate legal counsel 1.5% of all Increment II percentage of sales payments received by Kaupulehu Developments for services provided by its external real estate legal counsel in the negotiation and closing of the Increment II transaction. No amounts were paid pursuant to this arrangement in fiscal 2008, 2007 and 2006.

Kaupulehu 2007 has an agreement with Mr. David Johnston, the son of Mr. Terry Johnston, a director of Barnwell, under which Mr. David Johnston serves as Kaupulehu 2007's project manager. Kaupulehu 2007 also has an agreement with an independent building contractor for home building services for Kaupulehu 2007's lots. A significant provision of these agreements is that in addition to a monthly fee, Mr. David Johnston and the building contractor will each receive 20% of the sales profit which is contingent on the sale of each of the two homes that are under construction.

Barnwell, as an investor in various joint ventures, may be periodically called upon to make additional capital contributions.

Barnwell is occasionally involved in routine litigation and is subject to governmental and regulatory controls that are incidental to the ordinary course of business. Barnwell's management believes that all claims and litigation involving Barnwell are not likely to have a material adverse effect on its results of operations, financial position or liquidity.

17. **FAIR VALUE OF FINANCIAL INSTRUMENTS**

Cash and cash equivalents, accounts payable, accrued expenses, drilling advances and payables to joint interest owners approximate their carrying values due to the short-term nature of the instruments. The carrying value of long-term debt approximates fair value as the terms approximate current market terms for similar debt instruments of comparable risk and maturities.

18. **CONCENTRATIONS OF CREDIT RISK**

Our oil and natural gas segment's primary concentration of credit risk is associated with four individually significant customers. At September 30, 2008, these customers, ProGas Limited, Glencoe Resources Ltd., Mercuria Energy Canada Inc., and Shell Trading Canada, accounted for approximately 33%, 17%, 18% and 15%, respectively, of our oil and natural gas receivables. No other customer accounted for more than 10% of our oil and natural gas receivables. At September 30, 2008, these customers accounted for approximately \$3,454,000 of our oil and natural gas receivables.

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At September 30, 2008, Barnwell's contract drilling subsidiary had accounts receivables from the federal, state of Hawaii and county entities totaling approximately \$509,000. Barnwell has lien rights on wells drilled and pumps installed for federal, state of Hawaii, county and private entities.

Management does not believe significant credit risk related to these trade receivables exists at September 30, 2008 based on prior historical experience.

19. **SUPPLEMENTAL STATEMENTS OF CASH FLOWS INFORMATION**

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

|   | Year ended September 30, |              |              |
|---|--------------------------|--------------|--------------|
|   | 2008                     | 2007         | 2006         |
| <i>Increase (decrease) from changes in:</i>   |                          |              |              |
| Receivables   | \$ (2,362,000)           | \$ (904,000) | \$ 2,519,000 |
| Other current assets  | 383,000                  | 1,079,000    | (1,963,000)  |
| Accounts payable  | (38,000)                 | 1,717,000    | (2,291,000)  |
| Accrued incentive plan and other compensation costs   | (301,000)                | (338,000)    | 1,466,000    |
| Other current liabilities   | 3,013,000                | (255,000)    | 2,821,000    |
| Increase from changes in current assets and liabilities   | \$ 695,000               | \$ 1,299,000 | \$ 2,552,000 |
| <i>Supplemental disclosure of cash flow information:</i>  |                          |              |              |
| Cash paid during the year for:  |                          |              |              |
| Interest, net of amount capitalized   | \$ 931,000               | \$ 1,000,000 | \$ 833,000   |
| Income taxes  | \$ 3,957,000             | \$ 859,000   | \$ 5,273,000 |
| <i>Supplemental disclosure of non-cash investing and financing activities:</i>                                |                          |              |              |
| Capitalized interest financed and not paid in cash  | \$ 68,000                | \$ 141,000   | \$           |
| Long-term debt borrowings financed  | \$ 6,600,000             | \$           | \$           |
| Debt assumed in purchase of drilling rig  | \$                       | \$ 620,000   | \$           |
| Debt assumed in purchase of residential parcel held for investment  | \$ 2,178,000             | \$           | \$           |
| Reduction in deposits on residential parcels with corresponding increase in investment in residential parcels | \$ 200,000               | \$           | \$           |

During the year ended September 30, 2008, 40,000 stock options were exercised by tendering 5,200 shares of Barnwell stock at a market value of \$14.95 per share plus \$1,000 of cash, resulting in a \$20,000 increase in common stock, a \$59,000 increase in additional paid-in capital and a \$78,000 increase in treasury stock. During the year ended September 30, 2007, 20,000 stock options were exercised by tendering 1,900 shares of Barnwell stock at an average market value of \$21.09 per share, resulting in a \$10,000 increase in common stock, a \$30,000 increase in additional paid-in capital and a \$40,000 increase in treasury stock.

During the years ended September 30, 2008 and 2007, capital expenditure accruals related to oil and natural gas asset retirement obligations decreased \$131,000 and increased \$276,000, respectively. Additionally, capital expenditure accruals related to oil and natural gas exploration and development increased \$825,000 and decreased \$2,039,000 during the years ended September 30, 2008 and 2007, respectively.

During the year ended September 30, 2008, accruals related to residential lots under development increased \$855,000. The increase in accruals related to residential lots under development during the year ended September 30, 2007 was not significant.

20. **SUMMARY OF SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

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

21. **SUPPLEMENTARY OIL AND NATURAL GAS INFORMATION (UNAUDITED)**

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

(A) *Oil and Natural Gas Reserves*

The following table, based on information prepared by independent petroleum engineers, Paddock Lindstrom & Associates Ltd., summarizes changes in the estimates of Barnwell's net interests in total proved reserves of oil and natural gas liquids ( NGL ) and natural gas ( MCF means 1,000 cubic feet of natural gas) which are all in Canada. All of Barnwell's oil and natural gas reserves are developed reserves in all years presented; Barnwell had no undeveloped reserves in these years:

|  | OIL & NGL<br>(Barrels) | GAS<br>(MCF)      |
|--|------------------------|-------------------|
| Balance at September 30, 2005  | 1,306,000              | 25,234,000        |
| Revisions of previous estimates due to discontinuation of Alberta Royalty Tax Credit | (24,000)               | (378,000)         |
| Revisions of previous estimates due to other   | 91,000                 | (865,000)         |
| Extensions, discoveries and other additions  | 190,000                | 4,464,000         |
| Less production  | (260,000)              | (3,629,000)       |
| Balance at September 30, 2006  | 1,303,000              | 24,826,000        |
| Revisions of previous estimates  | 176,000                | 1,279,000         |
| Extensions, discoveries and other additions  | 168,000                | 1,528,000         |
| Less production  | (260,000)              | (3,615,000)       |
| Balance at September 30, 2007  | 1,387,000              | 24,018,000        |
| Revisions of previous estimates  | 89,000                 | 1,114,000         |
| Extensions, discoveries and other additions  | 126,000                | 1,514,000         |
| Less production  | (267,000)              | (3,349,000)       |
| <b>Balance at September 30, 2008</b>   | <b>1,335,000</b>       | <b>23,297,000</b> |

|                               | OIL & NGL<br>(Barrels) | GAS<br>(MCF)      |
|-------------------------------|------------------------|-------------------|
| Proved producing reserves at: |                        |                   |
| September 30, 2005            | 1,102,000              | 21,842,000        |
| September 30, 2006            | 1,069,000              | 18,558,000        |
| September 30, 2007            | 1,095,000              | 18,858,000        |
| <b>September 30, 2008</b>     | <b>1,092,000</b>       | <b>18,814,000</b> |

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

All capitalized costs relating to oil and natural gas producing activities, both proved properties and unproved properties, were being depleted in all years.

|  | 2008           | September 30,<br>2007 | 2006           |
|--|----------------|-----------------------|----------------|
| Proved properties                      | \$ 186,085,000 | \$ 179,404,000        | \$ 146,542,000 |
| Unproved properties                    | 11,050,000     | 12,650,000            | 11,020,000     |
| Total capitalized costs                | 197,135,000    | 192,054,000           | 157,562,000    |
| Accumulated depletion and depreciation | 111,895,000    | 104,706,000           | 80,823,000     |



|                       |    |                   |    |            |    |            |
|-----------------------|----|-------------------|----|------------|----|------------|
| Net capitalized costs | \$ | <b>85,240,000</b> | \$ | 87,348,000 | \$ | 76,739,000 |
|-----------------------|----|-------------------|----|------------|----|------------|

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

|                            | 2008          | Year ended September 30, |               |
|----------------------------|---------------|--------------------------|---------------|
|                            |               | 2007                     | 2006          |
| Acquisition of properties: |               |                          |               |
| Unproved                   | \$ 268,000    | \$ 968,000               | \$ 3,052,000  |
| Proved                     | \$            | \$                       | \$            |
| Exploration costs          | \$ 4,770,000  | \$ 4,406,000             | \$ 8,935,000  |
| Development costs          | \$ 12,624,000 | \$ 8,790,000             | \$ 13,962,000 |

(D) *The Results of Operations of Barnwell's Oil and Natural Gas Producing Activities*

|                                | 2008          | Year ended September 30, |               |
|--------------------------------|---------------|--------------------------|---------------|
|                                |               | 2007                     | 2006          |
| Gross revenues                 | \$ 64,502,000 | \$ 44,759,000            | \$ 51,197,000 |
| Royalties, net of credit       | 15,061,000    | 10,160,000               | 13,293,000    |
| Net revenues                   | 49,441,000    | 34,599,000               | 37,904,000    |
| Production costs               | 10,581,000    | 10,203,000               | 8,217,000     |
| Depletion and depreciation     | 14,150,000    | 12,753,000               | 11,130,000    |
| Pre-tax results of operations* | 24,710,000    | 11,643,000               | 18,557,000    |
| Estimated income tax expense   | 8,649,000     | 4,424,000                | 7,423,000     |
| Results of operations*         | \$ 16,061,000 | \$ 7,219,000             | \$ 11,134,000 |

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

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

The following tables have been developed pursuant to procedures prescribed by SFAS No. 69, Disclosures about Oil and Gas Producing Activities - an amendment of FASB Statements 19, 25, 33, and 39, and utilize reserve and production data estimated by petroleum engineers. The information may be useful for certain comparison purposes but should not be solely relied upon in evaluating Barnwell or its performance. Moreover, the projections should not be construed as realistic estimates of future cash flows, nor should the standardized measure be viewed as representing current value.

The estimated future cash flows are based on sales prices, costs, and statutory income tax rates in existence at September 30, 2008, 2007 and 2006. Material revisions to reserve estimates may occur in the future, development and production of the oil and natural gas reserves may not occur in the periods assumed and actual prices realized and actual costs incurred are expected to vary significantly from those used. Management does not rely upon this information in making investment and operating decisions; rather, those decisions are based upon a wide range of factors, including estimates of probable reserves as well as proved reserves and price and cost assumptions different than those reflected herein.



Standardized Measure of Estimated Discounted Future Net Cash Flows

|   | <b>2008</b>           | <b>As of September 30,<br/>2007</b> | <b>2006</b>    |
|---|-----------------------|-------------------------------------|----------------|
| Future cash inflows   | \$ <b>245,977,000</b> | \$ 224,114,000                      | \$ 147,246,000 |
| Future production costs   | <b>(79,014,000)</b>   | (75,216,000)                        | (53,961,000)   |
| Future development costs  | <b>(4,854,000)</b>    | (4,775,000)                         | (5,024,000)    |
| Future net cash flows before income taxes                             | <b>162,109,000</b>    | 144,123,000                         | 88,261,000     |
| Future income tax expenses  | <b>(38,153,000)</b>   | (35,416,000)                        | (20,552,000)   |
| Future net cash flows   | <b>123,956,000</b>    | 108,707,000                         | 67,709,000     |
| 10% annual discount for timing of cash flows                          | <b>(35,710,000)</b>   | (30,407,000)                        | (17,786,000)   |
| Standardized measure of estimated discounted future net cash flows(1) | \$ <b>88,246,000</b>  | \$ 78,300,000                       | \$ 49,923,000  |

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(1) Based on natural gas prices of \$5.94, \$5.37 and \$3.34 per 1,000 cubic feet, and oil prices of \$92.76, \$76.75 and \$54.99 per barrel, as of September 30, 2008, 2007 and 2006, respectively.

Changes in the Standardized Measure of Estimated Discounted Future Net Cash Flows

|   | 2008          | Year ended September 30,<br>2007 | 2006           |
|---|---------------|----------------------------------|----------------|
| Beginning of year   | \$ 78,300,000 | \$ 49,923,000                    | \$ 119,762,000 |
| Sales of oil and natural gas produced, net of production costs                  | (38,860,000)  | (24,299,000)                     | (29,735,000)   |
| Net changes in prices and production costs, net of royalties and wellhead taxes | 30,542,000    | 29,674,000                       | (85,254,000)   |
| Extensions and discoveries  | 10,691,000    | 8,775,000                        | 11,356,000     |
| Revisions of previous quantity estimates  | 13,589,000    | 9,681,000                        | (5,006,000)    |
| Net change in Canadian dollar translation rate                                  | (2,908,000)   | 3,165,000                        | 4,189,000      |
| Changes in the timing of future production and other                            | 1,362,000     | 6,411,000                        | (385,000)      |
| Net change in income taxes  | (11,830,000)  | (10,619,000)                     | 22,529,000     |
| Accretion of discount   | 7,360,000     | 5,589,000                        | 12,467,000     |
| Net change  | 9,946,000     | 28,377,000                       | (69,839,000)   |
| End of year   | \$ 88,246,000 | \$ 78,300,000                    | \$ 49,923,000  |

## PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

## (a) Financial Statements

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

|   | Page |
|---|------|
| <u>Report of Independent Registered Public Accounting Firm KPMG LLP</u>                   | 1    |
| <u>Consolidated Balance Sheets September 30, 2008 and 2007</u>                            | 2    |
| <u>Consolidated Statements of Earnings for the three years ended September 30, 2008</u>   | 3    |
| <u>Consolidated Statements of Cash Flows for the three years ended September 30, 2008</u> | 4    |

Consolidated Statements of Stockholders Equity and Comprehensive Income for the three years ended September 30, 2008  
Notes to Consolidated Financial Statements

5-7  
8

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

(b) Exhibits

|          |  |
|----------|--|
| No. 3.1  | Certificate of Incorporation(1)  |
| No. 3.2  | Amended and Restated By-Laws(2)  |
| No. 4.0  | Form of the Registrant's certificate of common stock, par value \$.50 per share.(3)  |
| No. 10.1 | The Barnwell Industries, Inc. Employees Pension Plan (restated as of October 1, 1989).(4)  |
| No. 10.2 | Phase I Makai Development Agreement dated June 30, 1992, by and between Kaupulehu Makai Venture and Kaupulehu Developments.(5)   |
| No. 10.3 | KD/KMV Agreement dated June 30, 1992 by and between Kaupulehu Makai Venture and Kaupulehu Developments.(5)   |
| No. 10.4 | Barnwell Industries, Inc.'s letter to Warren D. Steckley dated May 6, 1998, regarding certain terms of employment.(6)  |
| No. 21   | List of Subsidiaries(7)  |
| No. 23   | Consent of KPMG LLP(7)   |
| No. 31.1 | Certification of Chief Executive Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002(8)  |
| No. 31.2 | Certification of Chief Financial Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002(8)  |
| No. 32   | Certification of Chief Executive Officer and Chief Financial Officer Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002(9) |

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- (1) Incorporated by reference to the Registrant's Form S-8 dated November 8, 1991.
  - (2) Incorporated by reference to the Registrant's Form 8-K filed December 12, 2007.
  - (3) Incorporated by reference to the registration statement on Form S-1 originally filed by the Registrant January 29, 1957 and as amended February 15, 1957 and February 19, 1957.
  - (4) Incorporated by reference to Form 10-K for the year ended September 30, 1989.
  - (5) Incorporated by reference to Form 10-K for the year ended September 30, 1992.
  - (6) Incorporated by reference to Form 10-KSB for the year ended September 30, 2000.
  - (7) Previously filed with the Form 10-K on December 18, 2008.
  - (8) Filed with this Form 10-K/A.
  - (9) Furnished with this Form 10-K/A.

SIGNATURES

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

BARNWELL INDUSTRIES, INC.

(Registrant)

/s/ Russell M. Gifford  
By: Russell M. Gifford  
Chief Financial Officer, Executive Vice President, Treasurer  
and Secretary  
Date: April 6, 2009