

BARNWELL INDUSTRIES INC
Form 10KSB
December 21, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-KSB

**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the fiscal year ended September 30, 2005

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

Commission File Number 1-5103

BARNWELL INDUSTRIES, INC.

(Name of small business issuer in its charter)

Delaware	72-0496921
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1100 Alakea Street, Suite 2900, Honolulu, Hawaii	96813-2833

(Address of principal executive offices) (Zip code)

(808) 531-8400

(Issuer's telephone number)

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Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.50 per share	American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act: None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ☐

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ☐

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. ☒

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

Yes ☐ No ☒

Issuer's revenues for the fiscal year ended September 30, 2005: **\$44,210,000**

The aggregate market value of the voting stock held by non-affiliates (3,169,552 shares) of the Registrant on December 20, 2005, based on the closing price of \$20.50 on that date on the American Stock Exchange, was \$64,976,000.

As of December 20, 2005 there were 8,169,060 shares of common stock, par value \$0.50, outstanding.

Documents Incorporated by Reference

1. Proxy statement to be forwarded to shareholders on or about January 19, 2006 is incorporated by reference in Part III hereof.

Transitional Small Business Disclosure Format

Yes ☐ No ☒

TABLE OF CONTENTS

PART I

Discussion of Forward-Looking Statements

<u>Item 1.</u>	<u>Description of Business</u> <u>General Development of Business</u> <u>Financial Information about Industry Segments</u> <u>Narrative Description of Business</u> <u>Financial Information about Foreign and Domestic Operations and Export Sales</u>
<u>Item 2.</u>	<u>Description of Property</u> <u>Oil and Natural Gas Operations</u> <u>General</u> <u>Well Drilling Activities</u> <u>Oil and Natural Gas Production</u> <u>Productive Wells</u> <u>Developed Acreage and Undeveloped Acreage</u> <u>Reserves</u> <u>Estimated Future Net Revenues</u> <u>Marketing of Oil and Natural Gas</u> <u>Governmental Regulation</u> <u>Competition</u> <u>Contract Drilling Operations</u> <u>Activity</u> <u>Competition</u> <u>Land Investment Operations</u> <u>Activity</u> <u>Competition</u> <u>Corporate Office</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>

PART II

<u>Item 5.</u>	<u>Market For Common Equity and Related Stockholder Matters</u>
<u>Item 6.</u>	<u>Management's Discussion and Analysis or Plan of Operation</u> <u>Results of Operations</u> <u>Liquidity and Capital Resources</u>
<u>Item 7.</u>	<u>Financial Statements</u>
<u>Item 8.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>
<u>Item 8A.</u>	<u>Controls and Procedures</u>
<u>Item 8B.</u>	<u>Other Information</u>

PART III

<u>Item 9.</u>	<u>Directors, Executive Officers, Promoters and Control Persons, Compliance With Section 16(a) of the Exchange Act</u>
<u>Item 10.</u>	<u>Executive Compensation</u>
<u>Item 11.</u>	<u>Security Ownership of Certain Beneficial Owners and Management</u>
<u>Item 12.</u>	<u>Certain Relationships and Related Transactions</u>
<u>Item 13.</u>	<u>Exhibits and Reports on Form 8-K</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>

PART I

Forward-Looking Statements

This Form 10-KSB, and the documents incorporated herein by reference, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including various forecasts, projections of Barnwell Industries, Inc.'s (referred to herein together with its subsidiaries as "Barnwell") future performance, statements of Barnwell's plans and objectives and other similar types of information. Although Barnwell believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such forward-looking statements will be achieved. Such statements involve risks, uncertainties and assumptions, including, but not limited to, those relating to the factors discussed below, in other portions of this Form 10-KSB, in the Notes to Consolidated Financial Statements, and in other documents filed by Barnwell with the Securities and Exchange Commission from time to time, which could cause actual results to differ materially from those contained in such statements. These forward-looking statements speak only as of the date of filing of this Form 10-KSB, and Barnwell expressly disclaims any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein.

Barnwell's oil and natural gas operations are affected by domestic and international political, legislative, economic, regulatory and legal actions. Such actions may include changes in the policies of the Organization of Petroleum Exporting Countries or other developments involving or affecting oil-producing countries, including military conflict, embargoes, internal instability or actions or reactions of the government of the United States in anticipation of or in response to such developments. Domestic and international economic conditions, such as recessionary trends, inflation, interest costs, monetary exchange rates and labor costs, as well as changes in the availability and market prices of crude oil, natural gas and other petroleum products, may also have a significant effect on Barnwell's oil and natural gas operations. While Barnwell maintains reserves for anticipated liabilities and carries various levels of insurance, Barnwell could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings. In addition, climate and weather can significantly affect Barnwell in several of its operations. Barnwell's oil and gas operations are also affected by political developments and laws and regulations, particularly in the United States and Canada, such as restrictions on production, restrictions on imports and exports, the maintenance of specified reserves, tax increases and retroactive tax claims, expropriation of property, cancellation of contract rights, environmental protection controls, environmental compliance requirements and laws pertaining to workers' health and safety. Costs of compliance with environmental laws are ingrained in Barnwell's expenses and not distinguished from other costs and expenses.

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

Barnwell's contract drilling operations, which are located in Hawaii, are also indirectly affected by the factors discussed in the preceding paragraph. Barnwell's contract drilling operations are

materially dependent upon levels of land development activity in Hawaii. Such activity levels are affected by both short-term and long-term trends in Hawaii's economy. A decline in land development activity in Hawaii could have a material adverse effect on Barnwell's contract drilling revenues and profitability.

All dollar amounts in this report are in U.S. dollars, unless otherwise noted.

Item 1. Description of Business

(a) General Development of Business

Barnwell was incorporated in Delaware in 1956. During its last three fiscal years, Barnwell was engaged in 1) oil and natural gas exploration, development, production and sales primarily in Canada (oil and natural gas segment), 2) investment in leasehold land in Hawaii (land investment segment), and 3) well drilling, contract labor servicing for geothermal well drilling and workovers, and water pumping system installation and repair in Hawaii (contract drilling segment).

Barnwell's oil and natural gas activities comprise its largest business segment. Approximately 74% of Barnwell's revenues for the fiscal year ended September 30, 2005 was attributable to its oil and natural gas activities. Barnwell's contract drilling activities accounted for 17% of fiscal 2005 revenues; Barnwell's land investment segment revenues accounted for 7% of fiscal 2005 revenues; and other revenues comprised 2% of fiscal 2005 revenues. Approximately 97% of Barnwell's capital expenditures for the fiscal year ended September 30, 2005 was attributable to oil and natural gas activities and 3% was applicable to other activities.

(i) Oil and Natural Gas Activities. Barnwell's wholly-owned subsidiary, Barnwell of Canada, Limited, is involved in the acquisition, exploration and development of oil and natural gas properties, principally in Alberta, Canada. Barnwell of Canada initiates and participates in exploratory and developmental operations for oil and natural gas on property in which it has an interest, and evaluates proposals by third parties with regard to participation in such exploratory and developmental operations elsewhere. Barnwell's oil and natural gas segment derived 62% of its oil and natural gas revenues in fiscal 2005 from four individually significant marketers, ProGas Limited (25%), Glencoe Resources Limited (15%), Coral Energy Canada Inc. (11%), and Plains Marketing Canada, L.P. (11%).

(ii) Contract Drilling. Barnwell's wholly-owned subsidiary, Water Resources International, Inc. ("Water Resources"), drills wells and installs and repairs water pumping systems in Hawaii. Water Resources owns and operates four rotary drill rigs, a rotary drill/workover rig, pump installation and service equipment, and maintains drilling materials and pump inventory in Hawaii. Water Resources' contracts are usually fixed price per lineal foot drilled or day rate contracts that are either negotiated with private entities or are obtained through competitive bidding with various private entities or local, state and federal agencies. Barnwell's contract drilling subsidiary derived 63%, 70%, and 66% of its contract drilling revenues in fiscal 2005, 2004, and 2003, respectively, pursuant to federal, State of Hawaii and county contracts.

(iii) Land Investment. Barnwell owns a 77.6% controlling interest in Kaupulehu Developments, a Hawaii general partnership which 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 that is an affiliate of Kajima Corporation of Japan. Kaupulehu Developments later 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. In 2004, Kaupulehu Developments' leasehold interest in the first increment of these 870 acres was sold to WB KD Acquisition LLC, an independent third party.

Kaupulehu Developments currently owns development rights under option; rights to receive percentage payments on the first increment of the approximately 870 leasehold acres; an interest in leasehold land zoned for resort/residential development within the second increment of the approximately 870 leasehold acres, which is under a right of negotiation; and approximately 1,000 acres of vacant leasehold land zoned conservation.

(b) Financial Information about Industry Segments

Revenues of each industry segment for the fiscal years ended September 30, 2005, 2004, and 2003 are summarized as follows (all revenues were from unaffiliated customers with no intersegment sales or transfers):

	2005			2004			2003		
Oil and natural gas	\$	32,724,000	74%	\$	23,840,000	62%	\$	19,830,000	82%
Contract drilling		7,644,000	17%		3,690,000	10%		2,050,000	9%
Land investment		3,047,000	7%		10,077,000	26%		1,220,000	5%
Other		652,000	2%		827,000	2%		720,000	3%
Revenues from segments		44,067,000	100%		38,434,000	100%		23,820,000	99%
Interest income		143,000	0%		106,000	0%		340,000	1%
Total revenues	\$	44,210,000	100%	\$	38,540,000	100%	\$	24,160,000	100%

For further discussion see Note 11 (SEGMENT AND GEOGRAPHIC INFORMATION) and Note 13 (CONCENTRATIONS OF CREDIT RISK) of Notes to Consolidated Financial Statements in Item 7.

(c) Narrative Description of Business

See the table above in Item 1(b) detailing revenue of each industry segment and description of each industry segment of Barnwell's business under Item 2.

As of September 30, 2005, Barnwell employed 52 employees, 50 of which are on a full-time basis. Twenty-five are employed in contract drilling activities, 16 are employed in oil and natural gas activities, and 11 are members of the corporate and administrative staff.

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For further discussion see the Governmental Regulation section and the Competition section in Item 2 hereof.

(d) Financial Information about Foreign and Domestic Operations and Export Sales

Revenues and long-lived assets by geographic area for the three years ended and as of September 30, 2005, 2004 and 2003 are set forth in Note 11 (SEGMENT AND GEOGRAPHIC INFORMATION) of Notes to Consolidated Financial Statements in Item 7.

Item 2. Description of Property

OIL AND NATURAL GAS OPERATIONS

General

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

Barnwell initiates and participates in exploratory and developmental operations for oil and natural gas on property in which it has an interest. Barnwell also evaluates proposals by third parties for participation in other exploratory and developmental opportunities. All exploratory and developmental operations are overseen by Barnwell's Calgary, Alberta staff along with independent consultants as necessary. In fiscal 2005, Barnwell participated in exploratory and developmental operations in the Canadian Province of Alberta, although Barnwell does not limit its consideration of exploratory and developmental operations to this area.

Barnwell's producing natural gas and oil properties are located principally in Alberta. A small number of producing properties, representing less than 5% of production, are located in British Columbia and Saskatchewan. The Province of Alberta determines its royalty share of natural gas and of oil by using reference prices that average all natural gas sales and oil sales, respectively, in Alberta. Royalty rates are calculated on a sliding scale basis, increasing as prices increase up to a maximum royalty rate of 35%. Additionally, Barnwell pays gross overriding royalties and leasehold royalties on a portion of its natural gas and oil sales to parties other than the Province of Alberta.

In fiscal 2005 and 2004, the weighted average rate of royalties paid on all of Barnwell's natural gas was approximately 27%. The weighted average rate of all royalties paid to governments and others on natural gas from the Dunvegan Unit, Barnwell's principal oil and natural gas property, before the Alberta Royalty Tax Credit, was approximately 31% and 30% in fiscal 2005 and 2004, respectively. New production

coming on line at lower royalty rates essentially offset the increase in the weighted average royalty rate at Dunvegan.

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In fiscal 2005 and 2004, the weighted average royalty rate paid on oil was approximately 24% and 22%, respectively. The increase in the weighted average royalty rate on oil was primarily due to higher oil prices and the expiry of certain royalty holidays on new oil properties.

Prices of natural gas are typically higher in the winter than at other times due to demand for heating. Prices of oil are also subject to seasonal fluctuations, but to a lesser degree. Unit sales of oil and natural gas are based on the quantity produced from the properties by the operator based on sound petroleum practices and applicable rules and regulations. During periods of low demand for natural gas, the operator of the Dunvegan property may re-inject natural gas into underground storage facilities for delivery at a future date.

Well Drilling Activities

During fiscal 2005, Barnwell participated in the drilling of 70 gross development wells and 10 gross exploratory wells, of which management believes 69 should be capable of production and 11 are dry holes. The most significant drilling operations took place in the Dunvegan, Bonanza, Doris and Progress areas.

The following table sets forth more detailed information with respect to the number of exploratory (Exp.) and development (Dev.) wells drilled for the fiscal years ended September 30, 2005, 2004, and 2003 in which Barnwell participated:

	Productive Oil Wells		Productive Gas Wells		Total Productive Wells		Dry Holes		Total Wells	
	Exp.	Dev.	Exp.	Dev.	Exp.	Dev.	Exp.	Dev.	Exp.	Dev.
2005										
Gross*	1.0	7.0	4.0	57.0	5.0	64.0	5.0	6.0	10.0	70.0
Net*	0.3	1.7	1.0	7.3	1.3	9.0	1.6	1.6	2.9	10.6
2004										
Gross*	3.0	5.0	6.0	120.0	9.0	125.0	7.0	3.0	16.0	128.0
Net*	0.9	0.3	2.1	7.9	3.0	8.2	3.1	0.3	6.1	8.5
2003										
Gross*		5.0	8.0	40.0	8.0	45.0	5.0	7.0	13.0	52.0
Net*		1.5	2.1	7.5	2.1	9.0	1.5	2.1	3.6	11.1

* The term Gross refers to the total number of wells in which Barnwell owns an interest, and Net refers to Barnwell's aggregate interest therein. For example, a 50% interest in a well represents 1 gross well, but 0.5 net well. The gross figure includes interests owned of record by Barnwell and, in addition, the portion owned by others.

The Dunvegan Unit, in which Barnwell holds an 8.9% working interest, is Barnwell's principal oil and natural gas property and is located in Alberta, Canada. At September 30, 2005, the Dunvegan Unit had 188 producing natural gas wells. In fiscal 2005, Barnwell participated in the drilling of 41 gross (3.7 net) development gas wells in the Dunvegan area, all of which were successful. Total capital expenditures at Dunvegan were \$4,299,000 in fiscal 2005 as compared to \$3,670,000 and \$1,223,000 in

fiscal 2004 and 2003, respectively. Barnwell expects that fiscal 2006 capital expenditures at Dunvegan will decline from fiscal 2005's level.

Capital expenditures totaled \$2,023,000 in the Doris area in fiscal 2005 as compared to \$735,000 in fiscal 2004. Six gross wells (2.4 net wells) were drilled in fiscal 2005 of which four gross wells (1.7 net wells) were successful and two gross wells (0.7 net well) were unsuccessful. In the Doris area Barnwell acquired oil and natural gas rights in 4,480 gross (3,200 net) acres of undeveloped land in fiscal 2005. At September 30, 2005 Barnwell held a 44% average working interest in productive wells in the Doris area.

Capital expenditures totaled \$1,987,000 in the Bonanza area in fiscal 2005 as compared to \$1,740,000 in fiscal 2004. Five gross wells (1.6 net wells) were drilled in fiscal 2005 of which two gross wells (0.6 net wells) were successful and tied in and producing at September 30, 2005, and three gross wells (1.0 net wells) were unsuccessful. In the Bonanza area Barnwell acquired oil and natural gas rights in 6,400 gross (3,348 net) acres of undeveloped land in fiscal 2005. At September 30, 2005 Barnwell held a 32% average working interest in productive wells in the Bonanza area.

Capital expenditures totaled \$1,670,000 in the Progress area in fiscal 2005 as compared to \$550,000 in fiscal 2004. Three gross wells (0.9 net well) were drilled in fiscal 2005 of which two were successful and one is being evaluated. In the Progress area Barnwell acquired oil and natural gas rights in 1,280 gross (720 net) acres of undeveloped land in fiscal 2005. At September 30, 2005 Barnwell held a 32% average working interest in productive wells in the Progress area.

Capital expenditures totaled \$531,000 in the Wood River area in fiscal 2005 as compared to \$615,000 in fiscal 2004. Four gross wells (0.4 net wells) were successfully drilled in fiscal 2005. At September 30, 2005 Barnwell held a 14% average working interest in productive wells in the Wood River area.

Barnwell's average working interest in wells drilled in fiscal 2005 was approximately 17%, as compared to 10% in fiscal 2004 and 23% in fiscal 2003. The increase in fiscal 2005, as compared to fiscal 2004, was principally due to an 81 gross (2.7 net) well drilling program in fiscal 2004 in the Hilda area, where Barnwell's interest averaged 3.3%, which reduced Barnwell's average net interest in fiscal 2004. In fiscal 2005, Barnwell initiated 27 gross wells (8.8 net wells) as compared to 20 gross wells (7.9 net wells) in fiscal 2004.

Oil and Natural Gas Production

The following table summarizes (a) Barnwell's net unit production for the last three fiscal years, based on sales of crude oil, natural gas, condensate and other natural gas liquids, from all wells in which Barnwell has or had an interest, and (b) the average sales prices and average production costs for such production during the same periods. Production amounts reported are net of royalties and the Alberta Royalty Tax Credit. Barnwell's net production in fiscal 2005, 2004, and 2003 was derived primarily from the Province of Alberta.

	2005	Year Ended September 30, 2004	2003
Annual net production:			
Natural gas liquids (BBLs)*	114,000	105,000	85,000
Oil (BBLs)*	139,000	154,000	142,000
Natural gas (MCF)*	3,621,000	3,383,000	3,175,000
Annual average sale price per unit of production:			
BBL of liquids**	\$ 31.84	\$ 24.18	\$ 21.50
BBL of oil**	\$ 48.11	\$ 33.24	\$ 27.69
MCF of natural gas***	\$ 5.93	\$ 4.60	\$ 4.27
Annual average production cost per MCFE produced****	\$ 1.20	\$ 1.11	\$ 0.93
Annual average depletion cost per MCFE produced*****	\$ 1.66	\$ 1.31	\$ 0.90

* When used in this report, the term BBL(S) means stock tank barrel(s) of oil equivalent to 42 U.S. gallons and the term MCF means 1,000 cubic feet of natural gas at 14.65 pounds per square inch absolute and 60 degrees F.

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

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

**** Natural gas liquids, oil and natural gas units were combined by converting barrels of natural gas liquids and oil to an MCF equivalent (MCFE) on the basis of 1 BBL = 5.8 MCF. Excludes natural gas pipeline charges.

***** Natural gas liquids, oil and natural gas units were combined by converting barrels of natural gas liquids and oil to an MCF equivalent (MCFE) on the basis of 1 BBL = 5.8 MCF.

In fiscal 2005, approximately 68%, 21% and 11% of Barnwell's oil and natural gas revenues were from the sale of natural gas, oil and natural gas liquids, respectively.

In fiscal 2005, Barnwell's net production after royalties for natural gas averaged 9,920 MCF per day, an increase of 7% from 9,240 MCF per day in fiscal 2004. Gross natural gas production also increased 7% in fiscal 2005, as compared to fiscal 2004. Dunvegan contributed approximately 48% of Barnwell's net natural gas production in fiscal 2005, an increase from 44% in fiscal 2004 due to the new well drilling at Dunvegan.

Barnwell's major oil producing properties are the Red Earth, Chauvin and Bonanza areas in Canada. In fiscal 2005, net production after royalties for oil averaged 380 barrels per day, a decrease of 10% from 420 barrels per day in fiscal 2004. This decrease was principally due to natural production declines at Red Earth.

In fiscal 2005, net production after royalties for natural gas liquids averaged 310 barrels per day, an increase of 7% from 290 barrels per day in fiscal 2004. This increase was due to higher Dunvegan

production which increased 12% or 29 barrels per day. Dunvegan contributed approximately 82% of Barnwell's net natural gas liquids production in fiscal 2005.

The average production cost per MCFE was \$1.20 for fiscal 2005, an 8% increase from \$1.11 for fiscal 2004. The increase was due to an 8% increase in the average exchange rate of the Canadian dollar to the U.S. dollar in fiscal 2005, as compared to fiscal 2004.

The average depletion cost per MCFE was \$1.66 for fiscal 2005, a 27% increase from \$1.31 for fiscal 2004. The increase was due to a 17% increase in the depletion rate and an 8% increase in the average exchange rate of the Canadian dollar to the U.S. dollar.

The higher depletion rate is due to increases in Barnwell's costs of finding and developing proven reserves, and costs that are incurred to decrease the rate of production declines or maintain or increase rates of production from reserves found in previous years. Barnwell's cost of finding and developing proven reserves has increased due to the cost of oil and natural gas exploration and development having increased along with product prices, the drilling of unsuccessful wells, and as a portion of recent oil and natural gas capital expenditures were for the development of existing reserves.

In fiscal 2004, approximately 67%, 22% and 11% of Barnwell's oil and natural gas revenues were from the sale of natural gas, oil and natural gas liquids, respectively.

In fiscal 2004, Barnwell's net production after royalties for natural gas averaged 9,240 MCF per day, an increase of 6% from 8,700 MCF per day in fiscal 2003. Gross natural gas production also increased 6% in fiscal 2004, as compared to fiscal 2003. Dunvegan contributed approximately 44% of Barnwell's net natural gas production in fiscal 2004, an increase from 43% in fiscal 2003.

In fiscal 2004, net production after royalties for oil averaged 420 barrels per day, an increase of 8% from 390 barrels per day in fiscal 2003. This increase was due to new production from the Bonanza and Wizard Lake areas, partially offset by decreases in production at certain older properties.

In fiscal 2004, net production after royalties for natural gas liquids averaged 290 barrels per day, an increase of 26% from 230 barrels per day in fiscal 2003. This increase was due to increased production from the Dunvegan area and to a fire in early October 2002 at a Dunvegan gas plant that prevented stripping of natural gas liquids from the natural gas, resulting in an approximately 6,000 barrel decline in liquids net production in fiscal 2003.

The average production cost per MCFE was \$1.11 for fiscal 2004, a 19% increase from \$0.93 for fiscal 2003. The increase was due to the addition of new properties, costs incurred to re-enter wells for repair, maintenance and cleaning, and inflationary pressures on oil field service costs. Also contributing to the increase was a 10% increase in the average exchange rate of the Canadian dollar to the U.S. dollar which increased the average production cost per MCFE by \$0.10 in fiscal 2004, as compared to fiscal 2003.

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The average depletion cost per MCFE was \$1.31 for fiscal 2004, a 46% increase from \$0.90 for fiscal 2003. The increase is the result of increased costs of finding and developing proven reserves, as compared to prior years, and a 10% increase in the average exchange rate of the Canadian dollar to the U.S. dollar which increased the average depletion cost per MCFE by \$0.12 in fiscal 2004, as compared to fiscal 2003.

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The following table sets forth the gross and net number of productive wells Barnwell has an interest in as of September 30, 2005

Productive Wells

Location	Gross**		Net**	
	Oil	Gas	Oil	Gas
<u>Canada</u>				
Alberta	142	581	24.1	57.8
Saskatchewan	7	34	0.3	5.6
British Columbia	2		0.5	
Total	151	615	24.9	63.4

* Twelve gross natural gas wells have dual or multiple completions and two gross oil wells have dual completions.

** Please see note (2) on the following table.

Developed Acreage and Undeveloped Acreage

The following table sets forth certain information with respect to oil and natural gas properties of Barnwell as of September 30, 2005

Location	Developed Acreage(1)		Undeveloped Acreage(1)		Developed and Undeveloped Acreage(1)	
	Gross(2)	Net(2)	Gross(2)	Net(2)	Gross(2)	Net(2)
<u>Canada</u>						
Alberta	231,425	33,328	237,021	102,150	468,446	135,478
British Columbia	1,597	476	3,490	1,115	5,087	1,591
Saskatchewan	3,140	426			3,140	426
Total	236,162	34,230	240,511	103,265	476,673	137,495

(1) Developed Acreage includes the acres covered by leases upon which there are one or more producing wells. Undeveloped Acreage includes acres covered by leases upon which there are no producing wells and which are maintained in effect by the payment of delay rentals or the commencement of drilling thereon.

(2) Gross also refers to the total number of acres or wells in which Barnwell owns an interest, and Net refers to Barnwell's aggregate interest therein. For example, a 50% interest in a 320 acre lease represents 320 Gross Acres and 160 Net Acres. The gross acreage and well figures include interests owned of record by Barnwell and, in addition, the portion owned by others.

Barnwell's leasehold interests in its undeveloped acreage expire over the next fiscal years, if not developed, as follows: 6% expire during fiscal 2006; 6% expire during fiscal 2007; 18% expire during fiscal 2008; 32% expire during fiscal 2009; and 25% expire during fiscal 2010. Thirteen percent of Barnwell's undeveloped acreage is not subject to expiration because they are related to heavy oil and other areas where leases are allowed to continue indefinitely without having a well on the acreage.

There can be no assurance that Barnwell will be successful in renewing its leasehold interests in the event of expiration.

Barnwell's undeveloped acreage includes major concentrations in Alberta, at Bremner (8,640 net acres), Bonanza (6,352 net acres), Boundary Lake (6,326 net acres), Thornbury (6,261 net acres), Mulligan (4,708 net acres), Paddle River (5,760 net acres), Swalwell (4,000 net acres), Red Earth (3,271 net acres) and Doris (5,568 net acres).

Reserves

The amounts set forth in the table below, prepared by Paddock Lindstrom & Associates Ltd., Barnwell's independent reservoir engineering consultants, summarize the estimated net quantities of proved producing reserves and proved reserves of crude oil (including condensate and natural gas liquids) and natural gas as of September 30, 2005, 2004, and 2003 on all properties in which Barnwell has an interest. These reserves are before deductions for indebtedness secured by the properties and are based on constant dollars. No estimates of total proved net oil or natural gas reserves have been filed with or included in reports to any federal authority or agency, other than the United States Securities and Exchange Commission, since October 1, 2003.

Proved Producing Reserves

	2005	September 30, 2004	2003
Oil - barrels (BBLs) (including natural gas liquids):			
Dunvegan	456,000	446,000	479,000
All other properties	646,000	689,000	783,000
Total	1,102,000	1,135,000	1,262,000
Natural gas - thousand cubic feet (MCF):			
Dunvegan	12,947,000	13,796,000	13,598,000
All other properties	8,895,000	7,818,000	7,865,000
Total	21,842,000	21,614,000	21,463,000

Total Proved Reserves

(Includes Proved Producing Reserves)

	2005	September 30, 2004	2003
Oil - barrels (BBLs) (including natural gas liquids):			
Dunvegan	489,000	524,000	559,000
All other properties	817,000	780,000	842,000
Total	1,306,000	1,304,000	1,401,000
Natural gas - thousand cubic feet (MCF):			
Dunvegan	13,858,000	15,975,000	16,095,000
All other properties	11,376,000	10,850,000	11,544,000
Total	25,234,000	26,825,000	27,639,000

As of September 30, 2005, essentially all of Barnwell's proved producing and total proved reserves were located in the Province of Alberta, with minor volumes located in the Provinces of Saskatchewan and British Columbia.

During fiscal 2005, Barnwell's total net proved reserves, including proved producing reserves, of oil, condensate and natural gas liquids increased by 2,000 barrels, and total net proved reserves of natural gas decreased by 1,591,000 MCF.

The change in oil, condensate and natural gas liquids reserves was the net result of production during the year of 253,000 barrels, the addition of 179,000 barrels from the drilling of productive wells, and the independent engineer's 76,000 barrel upward revision of Barnwell's oil reserves.

The change in natural gas reserves was the net result of production during the year of 3,621,000 MCF, the addition of 3,266,000 MCF from the drilling of productive natural gas wells and the independent engineer's 1,236,000 MCF downward revision of Barnwell's natural gas reserves. The downward revision was caused by prior year wells not performing as anticipated.

Barnwell's working interest in the Dunvegan area accounted for approximately 55% and 60% of its total proved natural gas reserves at September 30, 2005 and 2004, respectively, and approximately 37% and 40% of total proved oil and natural gas liquids reserves at September 30, 2005 and 2004, respectively.

The following table sets forth Barnwell's oil and natural gas reserves at September 30, 2005, by property name, based on information prepared by Paddock Lindstrom & Associates Ltd. Gross reserves are before the deduction of royalties; net reserves are after the deduction of royalties net of the Alberta Royalty Tax Credit. This table is based on constant dollars where reserve estimates are based on sales prices, costs and statutory tax rates in existence at the date of the projection. Oil, which includes natural gas liquids, is shown in thousands of barrels (MBBLs) and natural gas is shown in millions of cubic feet (MMCF).

OIL AND NATURAL GAS RESERVES AT SEPTEMBER 30, 2005

Property Name	Total Proved Producing				Total Proved			
	Oil & NGL		Gas		Oil & NGL		Gas	
	Gross (MBBLS)	Net	Gross (MMCF)	Net	Gross (MBBLS)	Net	Gross (MMCF)	Net
Dunvegan	656	456	16,394	12,947	704	489	17,616	13,858
Red Earth	332	290			351	304		
Bonanza/Balsam	104	87	1,036	856	105	87	1,227	1,000
Pouce Coupe South	11	7	1,359	1,105	11	7	1,359	1,105
Medicine River	38	28	902	606				