



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 and Barnwell's Chief Operating Officer located in Honolulu, along with senior management and independent consultants as necessary. In fiscal 2007, Barnwell participated in exploratory and developmental operations primarily in the Canadian Province of Alberta, although Barnwell does not limit its consideration of exploratory and developmental operations to this area.

The Province of Alberta charges oil and gas producers a royalty for production in Alberta. 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.

On October 25, 2007, the Alberta Government announced increases to the royalty rates on oil, natural gas liquids and natural gas production beginning on January 1, 2009. The new plan also intends to simplify royalties and eliminate "old" and "new" classifications of oil and natural gas with current maximum royalty rates of 35% with new royalty rates up to 50%. The new proposed 50% royalty rate is reached for oil when oil is selling at or above \$120.00 Canadian dollars per barrel and for natural gas when natural gas is selling at or above \$17.50 Canadian dollars per MCF. Barnwell is awaiting clarification from the Alberta Government on the new program and is in the process of assessing its impact. The new program may reduce Barnwell's natural gas and oil reserve volumes, reported net production, and estimated future revenues and estimated future cash flows from natural gas and oil reserves. The new program may also materially impact the economics of oil and natural gas exploration in the Alberta area. However, the magnitude of the potential impact, which will depend on the final form of legislation upon enactment, cannot be reasonably estimated at this time.

In fiscal 2007 and 2006, the weighted-average rate of all royalties paid on all of Barnwell's natural gas was approximately 24% and 28%, respectively. 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, was approximately 27% and 30% in fiscal 2007 and 2006, respectively. The decrease in royalty rate on all properties was primarily due to higher operating cost royalty credits received from the Alberta Department of Energy for operating expenditures incurred by Barnwell and lower commodity prices. At Dunvegan, the decrease in royalty rate was due to lower prices, lower average gross production per well, and these wells being categorized as lower productivity, decreasing the royalty rate overall for the property.

In fiscal 2007 and 2006, the weighted-average royalty rate paid on oil was approximately 20% and 23%, respectively. The decrease in the weighted-average royalty rate on oil was primarily due to a higher percentage of Barnwell's fiscal 2007 production of oil coming from newer wells where royalties are assessed at a lower rate than on older wells.

Natural gas prices are typically higher in the winter than at other times due to increased heating demand. Oil prices are also subject to seasonal fluctuations, but to a lesser degree. Oil and natural gas unit sales are based on the quantity produced from the properties by the operator. During periods of low demand for natural gas, the operator of the Dunvegan property may re-inject natural gas into underground storage facilities in the Dunvegan property for delivery at a future date.

The following table sets forth Barnwell's oil and natural gas reserves at September 30, 2007, 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. This table is based on constant dollars where reserve estimates are based on sales prices, costs and statutory tax rates in existence at September 30, 2007, the date of the projection. Oil, which includes natural gas liquids ("NGL"), is shown in thousands of barrels ("MBBLS") and natural gas is shown in millions of cubic feet ("MMCF").

The following table sets forth Barnwell's oil and natural gas reserves at September 30, 2007, 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. 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 ("NGL"), 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, 2007

Property Name	Total Proved Producing				Total Proved			
	Oil & NGL		Gas		Oil & NGL		Gas	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	(MBBLS)	(MBBLS)	(MMCF)	(MMCF)	(MBBLS)	(MBBLS)	(MMCF)	(MMCF)
Dunvegan	566	387	14,473	11,577	566	387	14,473	11,577
Red Earth	269	235	7	5	269	235	7	5
Bonanza/Balsam	91	77	633	520	119	97	1,133	907
Pouce Coupe South	12	8	1,495	1,213	65	54	1,619	1,306
Medicine River	33	22	618	442	33	22	618	442
Doris	-	-	827	691	-	-	1,259	1,042
Faith South	-	-	-	-	-	-	1,011	822
Wood River	42	37	272	226	71	60	521	419
Progress	111	103	576	467	190	168	2,243	1,741
Pouce Coupe	4	3	317	264	4	3	317	264
Boundary Lake	4	3	548	414	87	70	1,163	900
Other properties	<u>257</u>	<u>220</u>	<u>3,570</u>	<u>3,039</u>	<u>340</u>	<u>291</u>	<u>5,399</u>	<u>4,593</u>
TOTAL	<u>1,389</u>	<u>1,095</u>	<u>23,336</u>	<u>18,858</u>	<u>1,744</u>	<u>1,387</u>	<u>29,763</u>	<u>24,018</u>

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, 2007, 2006, and 2005 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, 2004.

Proved Producing Reserves

	September 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Oil – barrels (BBLs) (including natural gas liquids):			
Dunvegan	387,000	404,000	456,000
All other properties	708,000	<u>665,000</u>	<u>646,000</u>
Total	<u>1,095,000</u>	<u>1,069,000</u>	<u>1,102,000</u>
Natural gas – thousand cubic feet (MCF):			
Dunvegan	11,577,000	11,503,000	12,947,000
All other properties	7,281,000	<u>7,055,000</u>	<u>8,895,000</u>
Total	<u>18,858,000</u>	<u>18,558,000</u>	<u>21,842,000</u>

Total Proved Reserves (Includes Proved Producing Reserves)

	September 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Oil – barrels (BBLs) (including natural gas liquids):			
Dunvegan	387,000	426,000	489,000
All other properties	1,000,000	<u>877,000</u>	<u>817,000</u>
Total	<u>1,387,000</u>	<u>1,303,000</u>	<u>1,306,000</u>
Natural gas – thousand cubic feet (MCF):			
Dunvegan	11,577,000	12,074,000	13,858,000
All other properties	12,441,000	<u>12,752,000</u>	<u>11,376,000</u>
Total	<u>24,018,000</u>	<u>24,826,000</u>	<u>25,234,000</u>

Estimated Future Net Revenues

The following table sets forth Barnwell's "Estimated Future Net Revenues" from total proved oil, natural gas and condensate reserves and the present value of Barnwell's "Estimated Future Net Revenues" (discounted at 10%). Estimated future net revenues for total proved reserves are net of estimated future expenditures of developing and producing the proved reserves, and assume the continuation of existing economic conditions. Net revenues have been calculated using year-end sales prices and current costs, after deducting all royalties, operating costs, future estimated capital expenditures, and income taxes.

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classifications of oil and natural gas with current maximum royalty rates of 35% with new royalty rates up to 50%. The new proposed 50% royalty rate is reached for oil when oil is selling at or above \$120.00 Canadian dollars per barrel and for natural gas when natural gas is selling at or above \$17.50 Canadian dollars per MCF. Barnwell is awaiting clarification from the Alberta Government on the new program and is in the process of assessing its impact. The new program may reduce Barnwell's natural gas and oil reserve volumes, reported net production, and estimated future revenues and estimated future cash flows from natural gas and oil reserves. The new program may also materially impact the economics of oil and natural gas exploration in the Alberta area. However, the magnitude of the potential impact, which will depend on the final form of legislation upon enactment, cannot be reasonably estimated at this time.

Year ending September 30,	Proved Producing Reserves	Total Proved Reserves
2008	\$ 18,194,000	\$ 20,629,000
2009	14,422,000	19,133,000
2010	11,174,000	14,822,000
Thereafter	<u>39,700,000</u>	<u>54,123,000</u>
	<u>\$ 83,490,000</u>	<u>\$108,707,000</u>
Present value (discounted at 10%) at September 30, 2007	<u>\$ 60,135,000*</u>	<u>\$ 78,300,000*</u>

* These amounts do not purport to represent, nor should they be interpreted as, the fair value of Barnwell's natural gas and oil reserves. An estimate of fair value would also consider, among other items, the value of Barnwell's undeveloped land position, the recovery of reserves not presently classified as proved, anticipated future changes in oil and natural gas prices (these amounts were based on a natural gas price of \$5.37 per 1,000 cubic feet as of September 30, 2007) and costs, and a discount factor more representative of the time value of money and the risks inherent in reserve estimates.

Oil and Natural Gas Production

The following table summarizes (a) Barnwell's net 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 and depletion costs for such production during the same periods. Production amounts reported are net of royalties and the Alberta Royalty Tax Credit, where applicable. As discussed in further detail below, the Alberta Royalty Tax Credit was discontinued effective January 1, 2007. Barnwell's net production in fiscal 2007, 2006, and 2005 was derived primarily from the Province of Alberta.

	Year Ended September 30,		
	2007	2006	2005
Annual net production:			
Natural gas liquids (BBLs)*	114,000	115,000	114,000
Oil (BBLs)*	146,000	145,000	139,000
Natural gas (MCF)*	3,615,000	3,629,000	3,621,000
Annual average sale price per unit of production:			
BBL of natural gas liquids**	\$ 37.36	\$ 40.18	\$ 31.84
BBL of oil**	\$ 56.96	\$ 56.85	\$ 48.11
MCF of natural gas***	\$ 5.88	\$ 6.67	\$ 5.93
Annual average production cost per MCFE produced****	\$ 1.83	\$ 1.45	\$ 1.20
Annual average depletion cost per MCFE produced*****	\$ 2.49	\$ 2.17	\$ 1.66

* 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 Alberta Royalty Tax Credit divided by gross production.

*** Calculated on revenues net of pipeline charges before royalty expense and Alberta 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.

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