



BARNWELL INDUSTRIES, INC.

TO OUR STOCKHOLDERS:

Barnwell's net earnings for fiscal 2007 were \$3,516,000 (\$0.41 per share – diluted), as compared to net earnings of \$14,637,000 (\$1.68 per share – diluted) in fiscal 2006. The decrease in net earnings from fiscal 2006, our best year in our 51 year history, was due to several factors. First, net earnings for fiscal 2006 included non-operational deferred tax benefits of \$5,224,000 related to foreign tax credit carryforwards and a decrease in Canadian tax rates while only \$100,000 of such deferred tax benefits was recognized in fiscal 2007. Second, the closing of a real estate transaction in fiscal 2006 by Kaupulehu Developments' ("KD") resulted in Barnwell recognizing net revenues of \$6,197,000; no such real estate transaction occurred in fiscal 2007. Third, net earnings for fiscal 2006 included \$895,000 in net earnings for real estate consulting services; no such services were rendered in fiscal 2007. Additionally, oil and natural gas operating profits decreased due to lower natural gas market prices, which decreased 12% or \$0.79 per MCF (thousand cubic feet) from \$6.67 to \$5.88 per MCF, higher industry-wide oil and natural gas operating expenses and increased depletion over fiscal 2006.

Although the Company's earnings declined from last year, 2007 was a successful year, our eighth best year of reported net earnings and fourth consecutive year of issuance of dividends to our shareholders. In fiscal 2007, the Company paid cash dividends of over \$2,050,000, the highest amount in the Company's history and a 44% increase from fiscal 2006. This was the result of continued strong earnings by KD, Barnwell's 77.6%-owned land partnership and earnings from both our oil and natural gas and contract drilling operations.

During the year ended September 30, 2007 KD received \$3,585,000 from the sale of lots in the first of two increments, which combined comprise approximately 870 leasehold acres of land zoned resort/residential, for the development of 80 single family house lots. This land is located on the edge of the Pacific Ocean adjacent to and north of the five diamond Four Seasons Resort Hualalai at Historic Ka'upulehu on the Island of Hawaii.

Additionally, KD received \$2,437,000 in fiscal 2007 and \$2,656,000 in the first quarter of fiscal 2008, for a portion of its interests in development rights within Hualalai Resort. There are three remaining option payments of \$2,656,000 due on each December 31 of years 2008 to 2010 for the remaining development rights under option. If any annual option payment is not made, the remaining development right options will expire. There is no assurance that any portion of the remaining options will be exercised. KD also owns approximately 1,000 acres of conservation-zoned leasehold land on the ocean side of the Queen Kaahumanu Highway adjacent to these 870 acres of leasehold land.

Fiscal 2007 was a year of new acquisitions for the Company, starting with our acquisition of a passive minority ownership interest in Hualalai Resort, which was developed on land originally rezoned by KD, as well as our acquisition of a passive minority ownership interest in Kona Village Resort. We also acquired lot acquisition rights in the upland area of Kaupulehu.



Most significantly, in fiscal 2007, Barnwell began a new real estate venture 80%-owned by Barnwell and 20%-owned by Nearco, Inc. ("Nearco"), for the purpose of acquiring house lots for investment and to construct turnkey single-family homes for future sale; the venture has the right to 60% of the profits on the sale of a single-family home. Nearco is a company controlled by Mr. Terry Johnston, a director of Barnwell and minority interest owner in KD and certain of Barnwell's business ventures. In 2007, Barnwell purchased three house lots and placed deposits on four others for \$7,934,000. Barnwell intends to develop two residences for sale on two parcels and hold the third and other parcels to be purchased for investment purposes. The purchases of the remaining four lots are scheduled to close in fiscal 2008. Barnwell obtained a \$16,000,000 credit facility in December 2007 to finance the purchase of four of the seven lots and the construction of two houses.

In the oil and natural gas segment, Barnwell invested \$14,164,000 in the development of its oil and natural gas properties. The Company's proved developed oil and natural gas properties as of September 30, 2007, as determined by independent petroleum engineers, are projected to generate undiscounted future after-tax net cash flows of approximately \$108,000,000. The projection was based on current prices and assumes no price increases. Utilizing this same constant price evaluation, the proved developed reserves per outstanding share of the Company are approximately 3.9 MCF equivalents (oil and natural gas liquids are converted at a ratio of one barrel to 5.8 MCF). The Company's average selling price of an MCF equivalent in fiscal 2007 was \$6.60. Additionally, the Company holds some 125,000 net acres of undeveloped oil and natural gas properties in Canada.

Our Hawaii contract drilling operations also contributed to the Company's net earnings, generating positive cash flows from operations and operating profits. Additionally, the drilling operations currently have a backlog of well drilling and pump installation contracts of approximately \$9,000,000.

We are all deeply saddened to note that Erik Hazelhoff-Roelfzema, a director of the Company for over 30 years, passed away this past September. Erik was a close personal friend and esteemed business advisor for over 50 years. He had an illustrious career which ranged from being a key participant in the Dutch underground in World War II, being a Pathfinder pilot in the RAF after Queen Wilhelmina forbade him from conducting further missions for the underground, being a successful author and having a movie, "Soldier of Orange", made about his life. His keen judgment of people contributed greatly to the success of this Company and we would again like to express our sympathy and condolences to his wife, Mrs. Karin Hazelhoff-Roelfzema and his family. We also wish to note the passing of Dr. H. Whitney Boggs, Jr., a director of the Company from 1977 to 1999. Dr. Boggs was a close friend to many at the Company who served with distinction on our board for over 22 years and continued to counsel and assist the Board after his retirement for medical reasons. He was a prominent surgeon from Shreveport, Louisiana and past president of the American Society of Colon and Rectal Surgeons. As stated by a fellow surgeon in the American Society's obituary for Dr. Boggs, "He was a man of strength, vision and humor . . . (and) is one of those giants on whose shoulders we are all standing." We would again like to express our sympathy and condolences to his family.



We are pleased to report that Mr. Robert J. Inglima, Jr. has been appointed a Director of the Company. Mr. Inglima is an attorney in private practice in New Jersey and is a member of the New Jersey State Bar Association. He brings to Barnwell many years of real estate law experience and strong leadership skills.

We strongly believe that our oil and gas and real estate investments have brought us to the strong financial position we are in today and will provide a strong foundation for the Company's operations in the future. We thank you, our stockholders, for your continued support.

For the Board of Directors,

A handwritten signature in black ink, appearing to read "Morton H. Kinzler".

Morton H. Kinzler
Chairman of the Board and
Chief Executive Officer

A handwritten signature in black ink, appearing to read "Alexander C. Kinzler".

Alexander C. Kinzler
President, Chief Operating Officer,
General Counsel and Director