



TO OUR STOCKHOLDERS:

Fiscal 2008, Barnwell's 52nd year, saw startling changes in the world's economy. It was Barnwell's second best year of net earnings, our highest revenue total and our best total operating profit. We saw our average oil and natural gas prices reach new record highs; \$100 per barrel and \$7.77 per one thousand cubic feet ("MCF"), respectively. Revenues from our real estate related segments fell a modest \$1,055,000 while contract drilling revenues more than offset this decrease by increasing \$3,794,000 or 63%. The Company paid out \$1,858,000 in dividends and repurchased \$1,892,000 of its stock.

Net earnings totaled \$11,732,000 (\$1.39 per share – diluted), a significant improvement from fiscal 2007's net earnings of \$3,516,000 (\$0.41 per share – diluted). Revenues and total stockholders' equity both reached record amounts of \$65,644,000 and \$61,264,000, respectively. We ended the year with just over \$13,600,000 in cash and cash equivalents, representing 10.3% of our total assets, and positive working capital.

The Company's successful results were largely due to its oil and natural gas segment's record high prices received for oil, natural gas and natural gas liquids for the year which resulted in a \$14,842,000 increase in oil and natural gas revenues. Our contract drilling segment saw its operating profit more than double to \$1,711,000 in fiscal 2008 due to an increase in water well drilling activity as compared to the same period in the prior year.

A portion of the \$8,216,000, 234%, increase in net earnings from fiscal 2007's net earnings was due to a non-recurring item, the recognition of \$909,000 of deferred tax benefits due to a reduction in Canadian income tax rates. This item is not expected to reoccur in fiscal 2009.

During the year ended September 30, 2008, our 77.6%-owned land development partnership, Kaupulehu Developments, received \$517,000 from the sale of lots in the first of two increments, comprising 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 Kaupulehu on the Island of Hawaii.

Additionally, Kaupulehu Developments received \$4,426,000 in fiscal 2008 and \$886,000 in the first quarter of fiscal 2009, for a portion of its interests in development rights within Hualalai Resort. There are two remaining option payments of \$2,656,000 due on December 31, 2009 and December 31, 2010. If any annual option payment is not made, the remaining development right options will expire. Kaupulehu Developments also owns approximately 1,000 acres of conservation-zoned leasehold land on the ocean side of the Queen Kaahumanu Highway adjacent to the aforementioned 870 acres of leasehold land. There is no assurance the remaining development right options will be exercised or that further payments will be made to Kaupulehu Developments.

In the oil and natural gas segment, Barnwell invested \$17,662,000 in the development of its oil and natural gas properties. The Company's proved developed oil and natural gas properties as of September 30, 2008, as determined by independent petroleum engineers, are projected to generate



undiscounted future after-tax net cash flows of approximately \$123,000,000. The projection was based on prices as of September 30, 2008 and assumes no changes in prices. Utilizing this same constant price evaluation, the proved developed reserves per outstanding share of the Company are approximately 3.7 MCF equivalents or 0.6 barrel of oil equivalents (oil and natural gas liquids are converted at a ratio of one barrel to 5.8 MCF; natural gas is converted at a ratio of 5.8 MCF to one barrel of oil). Additionally, the Company holds some 110,000 net acres of undeveloped oil and natural gas properties in Canada.

However, during recent months, significant turmoil has taken place in the world negatively impacting real estate and the oil and natural gas markets as well as the financial markets. We now anticipate, based on the turmoil in the markets and due to the decline in the market price for both oil and natural gas, that the Company's investment in fiscal 2009 in the development of its oil and natural gas properties will be substantially lower than fiscal 2008's total. In addition, this year we decided to reduce our residential real estate exposure by selling off for a profit the rights to acquire two additional lots. Also, in the first quarter of fiscal 2009 our last right to acquire a lot was released to a third party thereby reducing our exposure to the two lots we hold for investment purposes and the two lots on which we are constructing houses.

The construction of these two houses has gone very well. Commenced in January of 2008, the framing and roofing work have been completed for both homes, and plumbing, electrical, air conditioning and audio/video work are substantially complete. Stucco work on the exteriors, and the installation of drywall, windows and doors in the interior is expected to be completed next month. Landscaping work is also substantially complete, the exterior ponds have been poured and 35 coconut palms have been planted on the two lots. Each home has a different floor plan which, along with the planned lush, tropical landscaping, will give each home a distinctive character. Furnishings for the homes are in the process of being purchased. Each home will be uniquely decorated to project the relaxed Big Island lifestyle.

One of our distinguished Board members, Mr. Terry Johnston, President of Nearco, a 20% joint venture partner in a number of our real estate investments, has decided for personal reasons to not stand for re-election. Mr. Johnston has served for over 9 years as a Board member and although leaving the Board he will continue to assist with Barnwell's real estate investments. We thank him for his numerous contributions throughout his years of service.

We believe that the Company's strong financial results have built a solid foundation on which Barnwell will be able to weather these turbulent times and we thank you, our stockholders, for your continued support.

For the Board of Directors,

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

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