

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarterly Period Ended September 30, 2006
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-28638

BMB MUNAI, INC.

-----  
(Exact name of registrant as specified in its charter)

Nevada 30-0233726

-----  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

202 Dostyk Ave, 4th Floor  
Almaty, Kazakhstan 050051

-----  
(Address of principal executive offices) (Zip Code)

+7 (3272) 375-125

-----  
(Registrant's telephone number, including area code)

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 any 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 whether the registrant is a large accelerated filer, an accelerated filer, or non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act: (Check one):

Large accelerated Filer  Accelerated Filer  Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes  No

As of October 27, 2006, the registrant had 43,690,652 shares of common stock, par value \$0.001, issued and outstanding.

BMB MUNAI, INC.  
FORM 10-Q  
TABLE OF CONTENTS

PART I -- FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements

Consolidated Balance Sheets as of September 30, 2006 and March 31, 2006 .....3

Consolidated Statements of Operations for the Three and Six Months Ended September 30, 2006 and 2005.....4

Consolidated Statements of Cash Flows for the Six Months Ended  
September 30, 2006 and 2005.....5

Notes to Consolidated Financial Statements.....6

Item 2. Managements' Discussion and Analysis of Financial Condition  
and Results of Operations.....22

Item 3. Qualitative and Quantitative Disclosures About Market Risk.....37

Item 4. Controls and Procedures.....37

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.....38

Item 1A. Risk Factors.....39

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.....39

Item 4. Submission of Matters to a Vote of Security Holders.....39

Item 5. Other Information.....39

Item 6. Exhibits.....40

Signatures.....40

2

<TABLE>  
<CAPTION>

PART I - FINANCIAL INFORMATION

Item 1 - Unaudited Consolidated Financial Statements

BMB MUNAI, INC.

CONSOLIDATED BALANCE SHEETS

	Notes	September 30, 2006 (Unaudited)	March 31, 2006
<S>	<C>	<C>	<C>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	\$ 34,283,815	\$ 18,046,123
Marketable securities	4	-	33,095,609
Trade accounts receivable		731,540	1,675,202
Inventories	5	7,438,115	3,239,947
Prepayments for materials		5,431,142	712,526
Other prepaid expenses and other assets, net	6	5,210,565	1,902,891
<b>Total current assets</b>		<b>53,095,177</b>	<b>58,672,298</b>
<b>LONG TERM ASSETS</b>			
Oil and gas properties, full cost method, net	7	80,583,564	66,683,297
Other fixed assets, net	8	1,373,035	1,020,951
Intangible assets, net		37,013	49,656
Long term prepayments	9	2,470,000	-
Restricted cash		156,454	156,454
<b>Total long term assets</b>		<b>84,620,066</b>	<b>67,910,358</b>
<b>TOTAL ASSETS</b>		<b>\$ 137,715,243</b>	<b>\$ 126,582,656</b>

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES			
Accounts payable		\$ 6,658,245	\$ 3,629,338
Due to reservoir consultants		-	500,000
Taxes payable		201,082	145,406
Accrued liabilities and other payables		199,291	349,231
		-----	-----
Total current liabilities		7,058,618	4,623,975
		-----	-----
LONG TERM LIABILITIES			
Liquidation fund		988,650	924,592
Deferred income tax liabilities	10	7,394,732	6,405,285
		-----	-----
Total long term liabilities		8,383,382	7,329,877
		-----	-----
COMMITMENTS AND CONTINGENCIES			
		14	-
			-
SHAREHOLDERS' EQUITY			
Share capital	11	43,691	42,224
Additional paid in capital	11	133,598,388	123,831,007
Accumulated deficit		(11,368,836)	(9,244,427)
		-----	-----
Total shareholders' equity		122,273,243	114,628,804
		-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			\$ 137,715,243
			\$ 126,582,656

See notes to the unaudited consolidated financial statements.

3

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 BMB MUNAI, INC.

#### CONSOLIDATED STATEMENTS OF OPERATIONS

	Notes	Three months ended September 30, 2006 (unaudited)	Three months ended September 30, 2005 (unaudited)	Six months ended September 30, 2006 (unaudited)	Six months ended September 30, 2005 (unaudited)
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES	12	\$ 4,016,972	\$ 1,385,336	\$ 6,362,944	\$ 2,047,973
EXPENSES					
Oil and gas operating		575,698	186,434	990,573	266,707
General and administrative		1,955,246	4,880,514	7,322,942	5,881,752
Depletion		427,477	313,912	667,968	665,644
Amortization and depreciation		41,366	34,368	76,511	64,806
Accretion expenses		24,453	-	64,058	-
		-----	-----	-----	-----
Total expenses		3,024,240	5,415,228	9,122,052	6,878,909
		-----	-----	-----	-----
INCOME / (LOSS) FROM OPERATIONS			992,732	(4,029,892)	(2,759,108)
OTHER INCOME (EXPENSE)					
Realized gain on marketable securities		254,663	118,909	501,948	181,688
Unrealized gain / (loss) on marketable securities		-	112,666	(7,539)	
Foreign exchange (loss) / gain, net		(232,907)	8,279	(74,263)	(124,136)
Interest income, net		234,831	-	390,115	12,022
Other (expense) / income, net		(57,454)	17,247	(120,254)	23,839
		-----	-----	-----	-----
Total other income		199,133	144,435	810,212	85,874
		-----	-----	-----	-----
INCOME / (LOSS) BEFORE INCOME TAXES			1,191,865	(3,885,457)	(1,948,896)
					(4,745,062)

INCOME TAX EXPENSE	10	(175,513)	-	(175,513)	-
NET INCOME / (LOSS)		\$ 1,016,352	\$ (3,885,457)	\$(2,124,409)	\$(4,745,062)
WEIGHTED AVERAGE COMMON SHARES					
OUTSTANDING - BASIC		43,690,652	32,376,574	43,270,313	32,187,708
INCOME / (LOSS) PER COMMON SHARE - BASIC		\$ 0.02	\$ (0.12)	\$ (0.05)	\$ (0.15)
WEIGHTED AVERAGE COMMON SHARES					
OUTSTANDING - DILUTED		43,811,962	-	-	-
INCOME PER COMMON SHARE - DILUTED		\$ 0.02	\$ -	\$ -	\$ -

See notes to the unaudited consolidated financial statements.

4

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BMB MUNAI, INC.

#### CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Six months ended September 30, 2006 (unaudited)	Six months ended September 30, 2005 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss		\$ (2,124,409)	\$(4,745,062)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depletion	7	667,968	665,644
Depreciation and amortization		76,511	64,806
Accretion expenses		64,058	-
Stock based compensation expense	11	3,555,346	3,815,158
Stock issued for services	11	455,000	172,682
Deferred income taxes	10	175,513	-
Unrealized (gain) / loss on marketable securities		(112,666)	7,539
Changes in operating assets and liabilities			
Decrease in marketable securities		33,208,275	163,885
Decrease / (increase) in trade accounts receivable		943,662	(674,212)
Increase in inventories		(4,198,168)	(788,763)
(Increase) / decrease in prepaid expenses and other assets		(8,026,290)	103,966
Increase / (decrease) in liabilities		2,434,643	(3,677,384)
Net cash provided by / (used in) operating activities		27,119,443	(4,891,741)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of oil and gas properties	7	(13,688,784)	(9,294,889)
Acquisition of other fixed assets	8	(481,469)	(67,093)
Acquisition of intangible assets		-	(56,745)
Increase in long term prepayments		(2,470,000)	-
Net cash used in investing activities		(16,640,253)	(9,418,727)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock		-	5,221,685
Proceeds from exercise of common stock options and warrants	11	5,758,502	863,934
Net cash provided by financing activities		5,758,502	6,085,619
NET CHANGE IN CASH AND CASH EQUIVALENTS		16,237,692	(8,224,849)
CASH AND CASH EQUIVALENTS at beginning of period		18,046,123	9,989,632
CASH AND CASH EQUIVALENTS at end of period		\$ 34,283,815	\$ 1,764,783

See notes to the unaudited consolidated financial statements.

5

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BMB MUNAI, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. DESCRIPTION OF BUSINESS

BMB Munai, Inc. (the "Company" or "BMB Munai") was incorporated in Utah in July 1981. The Company later changed its domicile to Delaware on February 7, 1994. Prior to November 26, 2003, the Company existed under the name InterUnion Financial Corporation ("InterUnion"). The Company changed its domicile from Delaware to Nevada in December 2004.

On November 26, 2003, InterUnion executed an Agreement and Plan of Merger (the "Agreement") with BMB Holding, Inc ("BMB"), a private Delaware corporation, formed for the purpose of acquiring and developing oil and gas fields in the Republic of Kazakhstan. As a result of the merger, the shareholders of BMB obtained control of the Company. BMB was treated as the acquiror for accounting purposes. A new board of directors was elected that was comprised primarily of the former directors of BMB Holding, Inc.

The Company's consolidated financial statements presented are a continuation of BMB, and not those of InterUnion Financial Corporation, and the capital structure of the Company is now different from that appearing in the historical financial statements of InterUnion Financial Corporation due to the effects of the recapitalization.

The Company has a representative office in Almaty, Republic of Kazakhstan.

From inception (May 6, 2003) through January 1, 2006 the Company had minimal operations and was considered to be in the development stage. From January 1, 2006 the Company started to generate significant revenues and is no longer in the development stage.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial information included herein is unaudited, except for the balance sheet as of March 31, 2006, which is derived from the Company's audited consolidated financial statements for the year ended March 31, 2006. However, such information includes all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim periods. The consolidated results of operations for the interim period are not necessarily indicative of the consolidated results to be expected for an entire year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted in this Form 10-Q Report pursuant to certain rules and regulations of the Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our March 31, 2006 Form 10-KSB Report.

The accounting principles applied are consistent with those as set out in the Company's annual Consolidated Financial Statements for the year ended March 31, 2006.

6

#### Basis of consolidation

The Company's consolidated financial statements present the consolidated results of BMB Munai, Inc., and its wholly owned subsidiary, Emir Oil LLP (hereinafter collectively referred to as the "Company"). All significant inter-company balances and transactions have been eliminated from the

## Consolidated Financial Statements.

All transactions of Emir Oil LLP from the date of its acquisition by BMB (June 7, 2003) through September 30, 2006 are reflected in the Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

## Use of estimates

The preparation of Consolidated Financial Statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates and affect the results reported in these Consolidated Financial Statements.

## Licences and contracts

Emir Oil LLP is the operator of the Aksaz, Dolinnoe and Emir oil and gas fields in western Kazakhstan (the "ADE Block", the "ADE Fields"). The Government of the Republic of Kazakhstan (the "Government") initially issued the license to Zhanaozen Repair and Mechanical Plant on April 30, 1999. On June 9, 2000, the contract for exploration of the Aksaz, Dolinnoe and Emir oil and gas fields was entered into between the Agency of the Republic of Kazakhstan on Investments and the Zhanaozen Repair and Mechanical Plant. On September 23, 2002, the contract was assigned to Emir Oil LLP. On September 10, 2004 the Government extended the term of the Contract for exploration and License from five years to seven years through July 9, 2007. On December 7, 2004 the Government assigned to Emir Oil LLP exclusive right to explore the additional territory during the remaining term of the License. To move from the exploration and development stage to the commercial production stage, the Company must apply for and be granted a commercial production contract. The Company is legally entitled to receive this commercial production contract and has an exclusive right to negotiate this Contract and the Government is obligated to conduct these negotiations under the Law of Petroleum in Kazakhstan. If the Company does not move from the exploration and development stage to the commercial production stage, it has the right to produce and sell oil, including export oil, under the Law of Petroleum for the term of its existing contract, which may be extended for an additional two-year term.

## Foreign currency translation

Transactions denominated in foreign currencies are reported at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to U.S. dollars at the rates of exchange prevailing at the balance sheet dates. Any gains or losses arising from a change in exchange rates subsequent to the date of the transaction are included as an exchange gain or loss in the Consolidated Statements of Operations.

## Share-based compensation

The Company accounts for options granted to non-employees at their fair value in accordance with SFAS No. 123R, Share Based Payment and EITF Abstracts Issue 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. Under SFAS No. 123R, share-based compensation is determined as the fair value of the equity instruments issued. The measurement date for these issuances is the earlier of the date at which a commitment for performance by the recipient to earn the equity instruments is reached or the date at which the recipient's performance is complete. Stock options granted to the "selling agents" in the private equity placement transactions have been offset to the proceeds as a cost of capital. Stock options and stocks granted to other non-employees are recognized in the Consolidated Statements of Operations.

The Company has a stock option plan as described in Note 11. Compensation expense for options and stocks granted to employees is determined based on their fair values at the time of grant, the cost of which is recognized in

the Consolidated Statements of Operations over the vesting periods of the respective options.

#### Risks and uncertainties

The ability of the Company to realize the carrying value of its assets is dependent on being able to develop, transport and market oil and gas. Currently exports from the Republic of Kazakhstan are primarily dependent on transport routes either via rail, barge or pipeline, through Russian territory. Domestic markets in the Republic of Kazakhstan historically and currently do not permit world market price to be obtained. However, management believes that over the life of the project, transportation options will be improved by further increases in the capacity of the transportation options.

#### Recognition of revenue and cost

Revenue and associated costs from the sale of oil are charged to the period when goods were shipped or when ownership title transferred. Produced but unsold products are recorded as inventory until sold.

8

#### Income taxes

The Company accounts for income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between 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 expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the liability method, the effect on previously recorded deferred tax assets and liabilities resulting from a change in tax rates is recognized in earnings in the period in which the change is enacted.

#### Cash and cash equivalents

The Company considers all demand deposits and money market accounts purchased with an original maturity of three months or less to be cash and cash equivalents. The fair value of cash and cash equivalents approximates their carrying amounts due to their short-term maturity.

#### Marketable securities

Marketable securities represent debt and equity securities held-for-trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price. Trading securities are initially recorded at cost, which approximates fair value of the consideration given, and subsequently measured at fair value. The Company uses quoted market prices to determine fair value for the Company's marketable securities. When reliable market prices are not available fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognized in profit and loss for the period.

#### Trade accounts receivable and prepaid expenses

Accounts receivable and prepaid expenses are stated at their net realizable values after deducting provisions for uncollectable amounts. Such provisions reflect either specific cases or estimates based on evidence of collectability. The fair value of accounts receivable and prepaid expense accounts approximates their carrying amounts due to their short-term maturity.

#### Inventories

Inventories of equipment for development activities, tangible drilling materials required for drilling operations, spare parts, diesel fuel, and various materials for use in oil field operations are recorded at the

lower of cost and net realizable value. Under the full cost method, inventory is transferred to oil and gas properties when used in exploration, drilling and development operations in oilfields.

9

Inventories of crude oil are recorded at the lower of cost or net realizable value. Cost comprises direct materials and, where applicable, direct labor costs and overhead, which has been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

The Company periodically assesses its inventories for obsolete or slow moving stock and records an appropriate provision, if there is any.

#### Oil and gas properties

The Company follows the full cost method of accounting for its costs of acquisition, exploration and development of oil and gas properties.

Under full cost accounting rules, the net capitalized costs of evaluated oil and gas properties shall not exceed an amount equal to the present value of future net cash flows from estimated production of proved oil and gas reserves, based on current economic and operating conditions, including the use of oil and gas prices as of the end of the period.

Given the volatility of oil and gas prices, it is reasonably possible that the estimate of discounted future net cash flows from proved oil and gas reserves could change. If oil and gas prices decline, even if only for a short period of time, it is possible that impairments of oil and gas properties could occur. In addition, it is reasonably possible that impairments could occur if costs are incurred in excess of any increases in the cost ceiling, revisions to proved oil and gas reserves occur, or if properties are sold for proceeds less than the discounted present value of the related proved oil and gas reserves.

All geological and geophysical studies, with respect to the ADE Block, have been capitalized as part of the oil and gas properties.

The Company's oil and gas properties primarily include the value of the license and other capitalized costs.

Depletion of producing properties is computed using the unit-of-production method based on estimated proved reserves.

#### Liquidation fund

Liquidation fund (site restoration and abandonment liability) is related primarily to the conservation and liquidation of the Company's wells and similar activities related to its oil and gas properties, including site restoration. Management assessed an obligation related to these costs with sufficient certainty based on internally generated engineering estimates, current statutory requirements and industry practices. The Company recognized the estimated fair value of this liability. These estimated costs were recorded as an increase in the cost of oil and gas assets with a corresponding increase in the liquidation fund. The oil and gas assets related to liquidation fund are depreciated on the unit-of-production basis separately for each field. An accretion expense, resulting from the changes in the liability due to passage of time by applying an interest method of allocation to the amount of the liability, is recorded as accretion expenses in the Consolidated Statement of Operations.

10

The adequacies of the liquidation fund are periodically reviewed in the light of current laws and regulations, and adjustments made as necessary.

#### Other fixed assets

Other fixed assets are valued at historical cost adjusted for impairment loss less accumulated depreciation. Historical cost includes all direct



costs associated with the acquisition of the fixed assets.

Depreciation of other fixed assets is calculated using the straight-line method based upon the following estimated useful lives:

Buildings and improvements	7-10 years
Machinery and equipment	6-10 years
Vehicles	3-5 years
Office equipment	3-5 years
Other	2-7 years

Maintenance and repairs are charged to expense as incurred. Renewals and betterments are capitalized.

Other fixed assets of the Company are evaluated for impairment. If the sum of expected undiscounted cash flows is less than net book value, unamortized costs of other fixed assets will be reduced to a fair value.

#### Intangible assets

Intangible assets include accounting and other software. Amortization of intangible assets is calculated using straight-line method upon estimated useful life ranging from 3 to 4 years.

#### Restricted cash

Restricted cash includes funds deposited in a Kazakhstan bank and is restricted to meet possible environmental obligations according to the regulations of the Republic of Kazakhstan.

#### Recent accounting pronouncements

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. This Statement is effective for financial statements issued for the fiscal years beginning after November 15, 2007. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

In September 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", an amendment of FASB Statements No. 87, 88, 106, and 132(R) This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (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 of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement is effective for employers with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) Topic 1N, "Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). This Bulletin provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated and should be restated. SAB 108 is effective for fiscal years

ending after November 15, 2006. The company does not believe SAB 108 will have a material impact on its results of operations, financial condition and cash flows.

In September 2006, the EITF issued EITF Abstracts Issue No. 06-3 (EITF 06-3). The EITF is providing guidance on how taxes collected from customers and remitted to Governmental Authorities should be presented in the income statements. EITF 06-3 is effective for interim and annual periods beginning after December 15, 2006. The company does not anticipate EITF 06-3 will have a material impact on its results of operations, financial condition and cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109". This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB No. 109 "Accounting for Income taxes". This interpretation is effective for the fiscal years beginning after December 15, 2006. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

### 3. CASH AND CASH EQUIVALENTS

As of September 30, 2006 and March 31, 2006 cash and cash equivalents included:

<TABLE>  
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	September 30, 2006	March 31, 2006
	<C>	<C>
<S> US Dollars	\$ 33,050,219	\$ 17,863,455
Foreign currency	1,233,596	182,668
	-----	-----
	\$ 34,283,815	\$ 18,046,123
	=====	=====

As of September 30, 2006 cash and cash equivalents included the amount of \$27,954,986 placed in money market funds having a 30 day simple yield of 4.97%.

As of March 31, 2006 cash and cash equivalents included the amount of \$11,100,262 placed in money market funds having a 30 day simple yield of 4.28%.

### 4. MARKETABLE SECURITIES

Marketable securities as of September 30, 2006 and March 31, 2006 were as follows:

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	September 30, 2006	March 31, 2006
	<C>	<C>
<S> General Electric Corporation corporate commercial papers	\$ -	\$ 22,064,587
Fannie Mae discount notes	-	11,031,022
	-----	-----
	\$ -	\$ 33,095,609
	=====	=====

### 5. INVENTORIES

Inventories as of September 30, 2006 and March 31, 2006 were as follows:

<CAPTION>

	September 30, 2006	March 31, 2006
	<C>	<C>
<S> Construction material	\$ 6,919,318	\$ 3,069,144
Spare parts	32,990	13,486
Crude oil produced	8,520	8,840
Other	477,287	148,477
	-----	-----
	\$ 7,438,115	\$ 3,239,947

6. OTHER PREPAID EXPENSES AND OTHER ASSETS, NET

Other prepaid expenses and other assets, net, as of September 30, 2006 and March 31, 2006 were as follows:

<CAPTION>

	September 30, 2006	March 31, 2006
<S>	<C>	<C>
Advances for services	\$ 2,858,020	\$ 452,839
VAT recoverable	2,356,321	1,335,971
Other	207,699	309,533
Reserves against uncollectible advances and prepayments		(211,475)
	\$ 5,210,565	\$ 1,902,891

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13

7. OIL AND GAS PROPERTIES, FULL COST METHOD, NET

Oil and gas properties, full cost method, net, as of September 30, 2006 and March 31, 2006 were as follows:

<TABLE>

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	September 30, 2006	March 31, 2006
<S>	<C>	<C>
Cost of drilling wells	\$22,716,384	\$14,895,604
Subsoil use rights	20,788,119	20,788,119
Professional services received in exploration and development activities	12,354,541	10,600,327
Material and fuel used in exploration and development activities		8,363,089
Deferred tax	7,219,219	6,405,285
Infrastructure development costs	2,007,365	1,412,999
Geological and geophysical	1,434,065	1,432,418
Other capitalized costs	7,765,391	5,704,210
Accumulated depletion	(2,064,609)	(1,396,641)
	\$ 80,583,564	\$ 66,683,297

In nontaxable business combination, deferred taxes were provided for the basis difference related to oil and gas properties. Since goodwill was not recognized in subsidiary's acquisition involving oil and gas properties, recognition of a deferred tax liability increased the financial reporting basis of the oil and gas properties.

8. OTHER FIXED ASSETS, NET

<CAPTION>

	Construction and equipment	Machinery and equipment	Vehicles and equipment	Office equipment	Other	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Cost						
at March 31, 2006	\$ 149,272	\$ 372,427	\$ 432,121	\$ 206,890	\$ 148,645	\$ 1,309,355
Additions	37,312	156,582	204,640	36,935	63,600	499,069
Disposals	-	-	(2,890)	(14,710)	(17,600)	
at September 30, 2006	186,584	529,009	636,761	240,935	197,535	1,790,824
Accumulated depreciation						
at March 31, 2006	24,922	26,187	152,719	51,650	32,926	288,404
Charge for the period	10,624	11,984	64,571	31,283	14,220	132,682
Disposals	-	-	(667)	(2,630)	(3,297)	
at September 30, 2006	35,546	38,171	217,290	82,266	44,516	417,789

Net book value at March  
31, 2006           \$ 124,350   \$ 346,240   \$ 279,402   \$ 155,240   \$ 115,719   \$ 1,020,951

Net book value at  
September 30, 2006   \$ 151,038   \$ 490,838   \$ 419,471   \$ 158,669   \$ 153,019   \$ 1,373,035

</TABLE>

14

In accordance with SFAS No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies, depreciation related to support equipment and facilities used in exploration and development activities in the amount of \$65,517 was capitalized to oil and gas properties for the six month ended September 30, 2006.

#### 9. LONG TERM PREPAYMENTS

On April 13, 2006 the Company entered into Agreement on Joint Business (the "Agreement") with Ecotechnic Chemicals AG incorporated in Switzerland (the "Ecotechnic") for construction of facility on utilization of associated gas on Company's fields (the "Facility"). After completion of the Facility construction the Company and Ecotechnic will sign the agreement on formation of joint venture company, which will operate the Facility.

In accordance with terms of the Agreement the Company made prepayments of USD \$2,470,000 to Ecotechnic for development of project documentation and purchase of equipment.

#### 10. INCOME TAXES

The income tax charge in the Consolidated Statements of Operations comprised:

<TABLE>

<CAPTION>

	Three months ended September 30, 2006	Three months ended September 30, 2005	Six months ended September 30, 2006	Six months ended September 30, 2005
<S>	<C>	<C>	<C>	<C>
Current tax expense	\$ -	\$ -	\$ -	\$ -
Deferred tax expense	175,513	-	175,513	-
	<u>\$ 175,513</u>	<u>\$ -</u>	<u>\$ 175,513</u>	<u>\$ -</u>

Relationship between tax expenses and accounting income for the three and six months ended September 30, 2006 and 2005 is explained as follows:

<CAPTION>

	Three months ended September 30, 2006	Three months ended September 30, 2005	Six months ended September 30, 2006	Six months ended September 30, 2005
<S>	<C>	<C>	<C>	<C>
Income/(loss) before income taxes	\$ 1,191,865	\$ (3,885,457)	\$(1,948,896)	\$ (4,745,062)
Expected tax provision	357,560	(1,165,637)	(584,669)	(1,423,519)
Add tax effect of:				
Permanent differences	(182,047)	1,165,637	760,182	1,423,519
	<u>\$ 175,513</u>	<u>\$ -</u>	<u>\$ 175,513</u>	<u>\$ -</u>

</TABLE>

15

Deferred taxes reflect the estimated tax effect of temporary differences between assets and liabilities for financial reporting purposes and those measured by tax laws and regulations. The components of deferred tax assets and deferred tax liabilities are as follows:

<TABLE>

<CAPTION>

	September 30, 2006	March 31, 2006
<S>	<C>	<C>
Deferred tax assets:		
Stock-based compensation	\$ 904,400	\$ -
Tax losses carried forward	1,821,926	593,122
	-----	-----
	2,726,326	593,122
Deferred tax liabilities:		
Oil and gas properties	9,668,533	6,636,522
Accrued interest income	452,525	361,885
	-----	-----
	10,121,058	6,998,407
	-----	-----
Net deferred tax liability	\$ 7,394,732	\$ 6,405,285

Deferred income taxes for US and Kazakhstan tax jurisdiction are as follows:

<CAPTION>

	September 30, 2006		March 31, 2006	
<S>	US tax jurisdiction	Kazakhstan tax jurisdiction	US tax jurisdiction	Kazakhstan tax jurisdiction
	<C>	<C>	<C>	<C>
Deferred tax assets:				
Stock-based compensation	\$ 904,400	\$ -	\$ -	\$ -
Tax losses carried forward	1,812,133	9,793	583,329	9,793
	-----	-----	-----	-----
	2,716,533	9,793	583,329	9,793
Deferred tax liabilities:				
Oil and gas properties	7,219,219	2,449,314	6,369,899	266,623
Accrued interest income	452,525	-	361,885	-
	-----	-----	-----	-----
	7,671,744	2,449,314	6,731,784	266,623
	-----	-----	-----	-----
Net deferred tax liability	\$ 4,955,211	\$ 2,439,521	\$ 6,148,455	\$ 256,830

Deferred tax liability from oil and gas properties for US tax jurisdiction, also described in Note 7, resulted from temporary difference related to oil and gas basis from non-taxable business combination.

#### 11. SHARE AND ADDITIONAL PAID IN CAPITAL

Common and preferred stock as of September 30, 2006 and March 31, 2006 were as follows:

<CAPTION>

	September 30, 2006	March 31, 2006
<S>	<C>	<C>
Preferred stock, \$0.001 par value		
Authorized	20,000,000	20,000,000
Issued and outstanding	-	-
Common stock, \$0.001 par value		
Authorized	500,000,000	100,000,000
Issued and outstanding	43,690,652	42,223,685

</TABLE>

On June 21, 2006 the Company filed Certificate of Amendment to BMB Munai, Inc. Articles of Incorporation with the Nevada Secretary of State to increase the Company's authorized common stock from 100,000,000 to 500,000,000 shares. Authorized preferred stock remained unchanged.

#### Share-Based Compensation

During the fiscal year ended March 31, 2005 the shareholders of the Company approved an incentive stock option plan (the "Plan") under which directors, officers and key personnel may be granted options to purchase common shares of the Company, as well as other stock based awards. 5,000,000 common shares were reserved for issuance under the Plan. The

Board determines the terms of options and other awards made under the Plan. Under the terms of the Plan, no incentive stock options shall be granted with an exercise price at a discount to the market.

#### Common Stock

On June 20, 2006 the Company granted common stock to officers and directors and certain employees and consultants of the Company under the Plan. The total number of restricted common shares granted was 495,000. The stock grants were valued at \$7.00 per share. Of the stock grants, 380,000 shares vested immediately, the balance are restricted stock grants. Compensation expense in the amount of \$3,465,000 was recognized in the Consolidated Statements of Loss and Consolidated Balance Sheet.

#### Stock Options

On June 20, 2006 the Company granted stock options to directors of the Company under the Plan. The total number of options was 200,000. The options are exercisable at a price of \$7.00 per share. The options will expire three years from the grant date. All of the options vested immediately upon grant. Compensation expense for options granted is determined based on their fair values at the time of grant, the cost of which in the amount of \$545,346 was recognized in the Consolidated Statements of Operations and Consolidated Balance Sheet.

On November 12, 2004 the Company granted stock options to its former corporate secretary for past services rendered. These options grant the employee the right to purchase up to 60,000 shares of the Company's common stock at an exercise price of \$4.00 per share. The options vested immediately and expire five years from the date of grant. In April 2006, options to acquire 7,200 common shares were exercised.

Stock options outstanding and exercisable as of September 30, 2006 were as follows:

<TABLE>  
<CAPTION>

	Number of Shares	Weighted Average Exercise Price
	-----	-----
<S>	<C>	<C>
As of March 31, 2006	980,783	\$ 4.97
Granted	200,000	7.00
Exercised	(7,200)	4.00
Expired	-	-
	-----	-----
As of September 30, 2006	1,173,583	\$ 5.33
	=====	=====

</TABLE>

17

Additional information regarding outstanding options as of September 30, 2006 was as follows:

<TABLE>  
<CAPTION>

	Options Outstanding			Options Exercisable		
	Range of Exercise Price	Weighted Average Options	Weighted Average Contractual Life (years)	Weighted Average Options	Weighted Average Exercise Price	
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
	\$ 4.00 - \$ 7.40	1,173,583	\$ 5.33	4.15	1,173,583	\$ 5.33

The estimated fair value of the stock options issued were determined using Black-Scholes option pricing model with the following assumptions:

<CAPTION>

Six months ended September 30, 2006	Year ended March 31, 2006
---	------------------------------

<S>	<C>	<C>	
Risk-free interest rate	5.23%	4.01% - 4.51%	
Expected option life	2 years	2 - 4 year	
Expected volatility in the price of the Company's common shares		65%	65% - 74%
Expected dividends	0%	0%	
Weighted average fair value of options and warrants granted during the period	\$2.73	\$2.01 - \$3.92	

</TABLE>

#### Warrants

On April 12, 2005, the Company granted warrants to placement agents in connection with funds raised on the Company's behalf. These warrants granted the placement agents the right to purchase up to 110,100 shares of the Company's common stock at an exercise price of \$5.00 per share. These warrants have been offset to the proceeds as a cost of capital. In October 2005, warrants to purchase 60,000 shares were exercised. In April 2006, the remaining warrants to purchase 50,100 shares were exercised.

On December 31, 2005, the Company granted warrants to placement agents in connection with funds raised on the Company's behalf. These warrants granted the placement agents the right to purchase up to 916,667 shares of the Company's common stock at an exercise price of \$6.00 per share. These warrants have been offset to the proceeds as a cost of capital. On May 13, 2006 these warrants were exercised.

18

Warrants outstanding and exercisable as of September 30, 2006 were as follows:

<TABLE>

<CAPTION>

	Number of Shares	Weighted Average Exercise Price
<S>	<C>	<C>
As of March 31, 2006	1,109,624	\$ 5.63
Granted	-	-
Exercised	(966,767)	5.95
Expired	-	-
As of September 30, 2006	142,857	\$ 3.50

Additional information regarding warrants outstanding as of September 30, 2006 is as follows:

<CAPTION>

	Warrants Outstanding			Warrants Exercisable		
	Range of Exercise Price	Weighted Average Warrants	Weighted Average Contractual Exercise Price	Weighted Average Warrants	Weighted Average Exercise Price	Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
	\$ 3.50	142,857	\$3.50	142,857	\$3.50	

## 12. REVENUES

<CAPTION>

	Three months ended September 30, 2006	Three months ended September 30, 2005	Six months ended September 30, 2006	Six months ended September 30, 2005
<S>	<C>	<C>	<C>	<C>
Export sales	\$ 4,016,972	\$ -	\$ 6,362,944	\$ -
Domestic sales	-	1,385,336	-	2,047,973
	\$ 4,016,972	\$ 1,385,336	\$ 6,362,944	\$ 2,047,973

</TABLE>

### 13. RELATED PARTY TRANSACTIONS

The Company leases ground fuel tanks and other oil fuel storage facilities and warehouses from Term Oil LLC. The lease expenses for the three months ended September 30, 2006 and 2005, totaled to \$54,021 and \$54,478, respectively. One of our shareholders is an owner of Term Oil LLC.

19

### 14. COMMITMENTS AND CONTINGENCIES

Historical investments by the Government of the Republic of Kazakhstan

The Government of the Republic of Kazakhstan made historical investments in the ADE Block in total amount of \$5,994,200 in relation to ADE Block and \$5,350,680 in relation to the Extended Territory. When the Company applies for and is granted commercial production rights for the ADE Block and Extended Territory, the Company will be required to begin repaying these historical investments to the Government of the Republic of Kazakhstan. The terms of repayment will be negotiated at the time the Company applies for commercial production rights.

Capital Commitments

Under the terms of its subsurface exploration contract, Emir Oil LLP is required to spend a total of \$32 million in exploration and development activities on the ADE Block. To retain its rights under the contract, the Company must spend a minimum of \$6 million in 2006 and \$4.5 million in 2007. The Company must also comply with the terms of the work program associated with the contract, which includes the drilling of at least nine additional new wells by July 9, 2007. Under the terms of its contract, the Company can apply for a two-year extension of time to complete its work program. The Company recently applied to extend the subsurface exploration contract to July 2009 and is awaiting approval of the extension. The failure to meet the minimum capital expenditures or to comply with the terms of the work program could result in the loss of the subsurface exploration contract.

Litigation

In December 2003, Brian Savage, Thomas Sinclair and Sokol Holdings, Inc., filed a lawsuit in Florida naming the Company and some of its former officers and directors as defendants. The plaintiffs in the case alleged breach of contract, unjust enrichment, breach of fiduciary duty, conversion and violation of a Florida trade secret statute in connection with a business plan for the development of the Aksaz, Dolinnoe and Emir oil and gas fields owned by Emir Oil LLP. The plaintiffs seek unspecified compensatory and exemplary damages. The parties have mutually agreed to dismiss this lawsuit without prejudice.

In April 2005, Sokol Holdings, Inc., filed a complaint in United States District Court, Southern District of New York alleging that the Company, and others, wrongfully induced Mr. Tolmakov, Director of Emir Oil, to breach a contract under which Mr. Tolmakov had agreed to sell to Sokol 70% of his 90% interest in Emir Oil LLP. Sokol Holdings, Inc. seeks damages in an unspecified amount exceeding \$75,000 to be determined at trial, punitive damages, specific performance in the form of an order compelling BMB to relinquish its interest in Emir and the underlying interest in the ADE fields to Sokol Holdings, Inc. and such other relief as the court finds just and reasonable.

20

In October 2005, Sokol Holdings amended its complaint in New York to add Brian Savage and Thomas Sinclair as plaintiffs and adding Credifinance Capital, Inc., and Credifinance Securities, Ltd., (collectively "Credifinance") as defendants in the matter. The amended complaint alleges tortious interference with contract, specific performance, breach of contract, unjust enrichment, breach of fiduciary duty, conversion, misappropriation of trade secrets, tortious interference with fiduciary duty and aiding and abetting breach of fiduciary duty in connection with a business plan for the development of the Aksaz, Dolinnoe and Emir oil and



gas fields owned by Emir Oil, LLP. The plaintiffs seek damages in an amount to be determined at trial, punitive damages, specific performance and such other relief as the Court finds just and reasonable.

The Company is confident that the matters shall be resolved in the Company's favor. The Company has retained legal counsel to protect its interests. In the opinion of the Company's management and legal counsel, the resolution of those lawsuits will not have a material adverse effect on Company's financial condition, results of operations or cash flows.

Other than the foregoing, to the knowledge of management, there is no other material litigation or governmental agency proceeding pending or threatened against the Company or management.

## 15. FINANCIAL INSTRUMENTS

As of September 30, 2006 and March 31, 2006 marketable securities of \$0 and \$33,095,609, respectively, are presented by discount bonds issued by General Electric Corporation and discount notes issued by Fannie Mae.

As of September 30, 2006 and March 31, 2006 cash and cash equivalents included deposits in Kazakhstan banks in the amount \$6,190,856 and \$3,881,255, respectively. As of September 30, 2006 and March 31, 2006 the Company made advance payments to Kazakhstan companies and government bodies in the amount \$7,281,647 and \$2,473,985, respectively. As of September 30, 2006 and March 31, 2006 restricted cash reflected in the long-term assets consists of \$156,454 and \$156,454, respectively, deposited in a Kazakhstan bank and restricted to meet possible environmental obligations according to the regulations of Kazakhstan. Furthermore, the primary asset of the Company is Emir Oil LLP; an entity formed under the laws of the Republic Kazakhstan.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist you in understanding our results of operations and our present financial condition. Our Consolidated Financial Statements and the accompanying notes included in this Form 10-Q contain additional information that should be referred to when reviewing this material and this document should be read in conjunction with the Form 10-KSB of the Company for the year ended March 31, 2006.

Statements in this discussion may be forward-looking. These forward-looking statements involve risks and uncertainties, including those discussed below, which could cause actual results to differ from those expressed.

### Forward Looking Statements

Certain of the statements contained in all parts of this document including, but not limited to, those relating to our drilling plans, future expenses, changes in wells operated and reserves, future growth and expansion, future exploration, future seismic data, expansion of operations, our ability to generate new prospects, our ability to obtain a production license, review of outside generated prospects and acquisitions, additional reserves and reserve increases, managing our asset base, expansion and improvement of capabilities, integration of new technology into operations, credit facilities, new prospects and drilling locations, future capital expenditures and working capital, sufficiency of future working capital, borrowings and capital resources and liquidity, projected cash flows from operations, future commodity price environment, expectations of timing, the outcome of legal proceedings, satisfaction of contingencies, the impact of any change in accounting policies on our consolidated financial statements, the number, timing or results of any wells, the plans for timing, interpretation and results of new or existing seismic surveys or seismic data, future production or reserves, future acquisitions of leases, lease options or other land rights, management's assessment of internal control over financial reporting, financial results, opportunities, growth, business plans and strategy and other statements that are not historical facts contained in this report are forward-looking statements. When used in this document, words like "expect," "project," "estimate," "believe," "anticipate," "intend," "budget," "plan," "forecast," "predict,"

"may," "should," "could," "will" and similar expressions are also intended to identify forward-looking statements. Such statements involve risks and uncertainties, including, but not limited to, market factors, market prices (including regional basis differentials) of crude oil and natural gas, results of future drilling and marketing activity, future production and costs and other factors detailed herein and in our other Securities and Exchange Commission filings. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. These forward-looking statements speak only as of their dates and should not be unduly relied upon. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Overview

BMB Munai, Inc. is an independent oil and natural gas company engaged in the exploration, development, acquisition and production of crude oil and natural gas properties in the Republic of Kazakhstan (sometimes also referred to herein as the "ROK" or "Kazakhstan"). We hold a contract that allows us to explore and develop approximately 460 square kilometers in western Kazakhstan. Our contract grants us the right to explore and develop the Aksaz, Dolinnoe and Emir oil and gas fields, referred to herein as "the ADE Block" as well as an area adjacent to the ADE Block referred to herein as "the Extended Territory." The ADE Block and Extended Territory are collectively referred to herein as "our properties."

Exploration Stage Activities

Under the statutory scheme in the Republic of Kazakhstan prospective oil fields are developed in two stages. The first stage is an exploration and appraisal stage during which a private contractor, such as BMB, is given a license to explore for oil and gas on a territory for a set term of years. During this stage the primary focus is on the search for a commercial discovery, i.e., a discovery of a sufficient quantity of oil and gas to make it commercially feasible to pursue execution of, or transition to, a production contract with the government.

In order to be assured that adequate exploration activities are undertaken by the contractor, the Ministry of Energy and Mineral Resources, ("MEMR") establishes an annual mandatory work program to be accomplished in each year of an exploration contract. The minimum work program is comprised of two parts. The first part sets a minimum dollar amount to be invested in exploration activities on the contract territory that may include geophysical studies, construction of field infrastructure or drilling activities. The second factor is to establish a minimum number of wells to be drilled in the contract territory during the term of an exploration contract. Failure to complete the minimum work program during the term of an exploration contract would preclude a contractor from entitlement to a longer-term production contract, regardless the success of the contractor in proving commercial reserves during the partial fulfillment of the minimum work program. Therefore, completion of the exploration contract's minimum work program is essential to the success of any oil company working in Kazakhstan.

The contract we hold follows the above format. Our contract was granted for an initial term that expired in 2005. The contract also provided for two extensions of two years each. The current contract extension will run through July 2007. Following this extension, we have the right to request a second extension to run through July 2009. Application for this second extension was recently submitted to the MEMR and we are awaiting approval of the request for the extension.

The contract sets the minimum dollar amount to be expended by the Company through July 2007 as follows:

<TABLE>  
<CAPTION>

---

Amount of Expenditure	Through July 2005	Through July 2006	Through July 2007	Total
-----------------------	-------------------	-------------------	-------------------	-------

<S>	<C>	<C>	<C>	<C>	<C>
Mandated by Contract	\$21,500,000	\$6,000,000	\$4,500,000	\$32,000,000	
Actually Made	\$38,400,000	\$12,700,000	\$9,650,000*	\$60,750,000	

</TABLE>

\* Investment as of September 30, 2006

Under the rules of the MEMR our expenditures above the minimum requirements in one period may be carried over to meet minimum obligations in future periods. As the above chart shows we have exceeded the minimum expenditure requirement in each period of the contract. We expect that the second extension scheduled to begin in July 2007 will impose an additional investment consistent with the amount imposed on the extension covering the 2006-2007 period. However, we expect our scheduled drilling activities to exceed any new amounts added to our minimum work program.

The second aspect of the mandatory minimum work program is the establishment of a minimum number of wells to be drilled on the contract territory before permitting the transition to a production contract. The number of wells to be drilled is generally determined by the number of structures identified by the seismic studies done on a territory. The 3D seismic studies of our contract territory, as extended, have identified six potential structures. Therefore, our contract requires that we complete a minimum of 18 wells during the exploration phase of our contract as reflected on the top half of the following chart:

<TABLE>  
<CAPTION>

Structures	Aksaz	Dolinnoe	Emir	Kariman	Borly	Yessen
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Exploratory Wells	1	1	1	1	1	1
Appraisal Wells	2	2	2	2	2	2
Existing Wells	2	3	1	1	0	0
Wells in Progress	0	1	1	1	0	0
Remaining Wells to Drill by July 2009	1	0	1	1	3	3

</TABLE>

The bottom half of the above chart shows our current progress on drilling of exploratory and appraisal wells, the second aspect of our mandatory minimum work program. As the chart shows, for purposes of meeting the minimum work program requirements, we have seven wells completed and three wells currently in progress. However, only two of those wells will count toward our total minimum required wells because the Dolinnoe structure already has three existing wells completed.

To date we have been conservative in our approach to exploration. It has been our practice to drill our first few wells serially. Our first well was the Dolinnoe-2 well drilled in 2004. This was followed by the Dolinnoe-3 well, and then the Aksaz-4 and Kariman-1 wells. We have verified the presence of oil and gas in all our wells thus far. And we have expended substantial time and money to study our wells very closely.

It is important to remember that the purpose of the exploration phase is to study the geology and geophysical characteristics of each field and individual wells, with a view to qualifying for a longer-term production contract. Once drilling of a well is completed, our emphasis focuses on an extended period of testing a well's production characteristics and capacities to determine the best method for producing oil from a well and to gain insight into the further development of the entire field. During this stage of exploration, oil production is subject to wide fluctuations caused by varying pressures

commonly experienced by new wells and by significant periods of well closure to accommodate various mandatory testing. Maximizing oil production only becomes the central focus during the post-exploration phase when exploiting the commercial discovery commences under a production contract.

In addition to the wells currently in progress, our minimum work program mandates that we complete nine wells by July 2009, the end of our exploration contract term. This will require that we continue to accelerate our drilling activities during the next two and a half years.

#### Drilling Operations

During the fourth fiscal quarter of last year we took steps to secure drilling rigs that would allow us to accelerate our drilling activities over previous years. In January 2006 we signed one-year contracts with Great Wall, a Chinese drilling company, and Oil and Gas Exploration Krakow, a Polish drilling company, to furnish heavy rigs of sufficient size to drill wells to the depth of 4,000 meters, which is generally our target depth in Triassic period carbonate structures. We also signed a turnkey contract with KandyagashBurService, LLP, a Kazakhstani drilling company, for drilling of new wells on the Emir oil field. In addition, we hired Great Wall and Kezbi, Kazakhstani drillers, to provide lighter rigs we use for workover and testing activities on completed wells.

When we acquired our contracts, there were several existing wells within the contract territory. State-owned drilling companies drilled most of these wells during the first several years after formation of the Republic of Kazakhstan. The wells were only partially completed and the depth of the wells was shallower than expected pay zones we have identified from our 3D seismic studies.

We have attempted to make re-entry into three of these pre-existing wells in the belief that we would realize cost savings by taking advantage of the existing well bores drilled to depths of up to 3,800 meters. However, our experience has led us to conclude that the existing well bores are of inferior

25

condition and have not resulted in any cost savings and in some cases have yielded completed well structures that are subject to numerous limitations.

We have concluded that new wells can be drilled at approximately the same cost as a well re-entry and we are able to place casing and tubing in the new well bores that are better suited to the conditions we find at greater drilling depth. For these reasons we stopped re-entry on the Borly-2 well as of September 5, 2006 and moved the rig from the Borly-2 to the Kariman-1 well following the conclusion of the pressure build-up test completed at the Kariman-1 well.

By the summer of 2006 all of our contracted rigs had arrived on-site and we were able to expand our drilling activities on new wells. We currently have three new wells in various stages of progress. We anticipate that our testing activities will be completed near our current fiscal year end and we should be able to realize stable production from these wells commencing in the spring of 2007.

#### Well Performance

Following is a brief description of the production status and performance of each of our seven completed wells.

##### Aksaz-1

This well is currently under workover and is not producing. Prior to workover, four producing intervals were tested. The single interval test production rates in Aksaz-1 using a 10 mm diameter choke was 140 bpd.

##### Aksaz-4

Drilling of this well was completed in August 2005. Two producing intervals have been tested. Current production rates from single interval testing using a 6 mm diameter choke ranges from 50 to 125 bpd.

Dolinnoe-1

Currently this well is producing. We recently completed acid treatment of this well. Current production rates from single interval testing using a 6 mm diameter choke ranges 60 to 100 bpd.

Dolinnoe-2

Currently this well is also producing. We recently completed acid treatment of this well. Current production rates from single interval testing using an 8 mm diameter choke ranges from 60 to 100 bpd.

26

Dolinnoe-3

This well was initially completed to a depth of 3,800 meters in September 2005. During initial testing, we were able to perforate only 17 of 24 meters of the producing interval because of intensive oil and gas shows. Subsequent, perforation of the remaining 7 meters of the interval was disrupted when tubing was impacted by the heavy drilling mud components, and the blowout preventer was damaged, which required the forced killing of the well. Although we were able to restore limited oil production from the well, the production was substantially lower than the well's initial test production performance. We have conducted numerous tests during the past six months in an effort to increase daily production rates to levels consistent with management expectations. In August 2006 we completed the acid treatment of the Dolinnoe-3 well. During the ten days following completion of the acid treatment the well produced between 460 and 630 bpd while being tested using chokes between 6mm and 10mm in size. We believe these initial test results indicate that we have developed a suitable hydrochloric acid formula to conduct effective acid treatment of the carbonate formations with temperature and pressure conditions characterized by the Dolinnoe field.

Emir-1

This well is currently producing. Current production rates from single interval testing using a 8 mm diameter choke ranges from 8 to 20 bpd.

Kariman-1

We began our current fiscal year continuing the re-entry of Kariman-1 well, our first project within the Extended Territory. The re-entry was completed on June 30, 2006 and well completion was undertaken and completed between July 7, 2006 and July 17, 2006 to the upper Triassic formation. Despite the fact that the flows from this horizon are partially blocked by drilling fluid, preliminary testing conducted during the first month of testing using chokes ranging from 20 mm to 30 mm yielded results ranging from 250 to 530 barrels per day. The well was then put into a pressure-build up test to better understand the source of the high pressures located during earlier re-entry operations at the upper four meters of Middle Triassic formation at the Kariman-1 well.

27

Results of Operations

Three months ended September 30, 2006, compared to the three months ended September 30, 2005.

Revenue and Production

The following table summarizes production volumes, average sales prices and operating revenue for our oil and natural gas operations for the three months ended September 30, 2006 and the three months ended September 30, 2005.

<TABLE>  
<CAPTION>

	Three months ended September 30, 2006 to the three months ended September 30, 2005
For the three	For the three -----

	months ended September 30, 2006	months ended September 30, 2005	\$ Increase (Decrease)	% Increase (Decrease)
<S>	<C>	<C>	<C>	<C>
Production volumes:				
Natural gas (Mcf)	-	-	-	-
Natural gas liquids (Bbls)	-	-	-	-
Oil and condensate (Bbls)	75,767	70,365	5,402	8%
Barrels of Oil equivalent (BOE)	75,767	70,365	5,402	8%
Average Sales Price				
Natural gas (\$ per Mcf)	-	-	-	-
Natural gas liquids (\$ per Bbl)	-	-	-	-
Oil and condensate (\$ per Bbl)	\$ 53.37	\$ 22.11	\$ 31.26	141%
Barrels of Oil equivalent (\$ per BOE)	\$ 53.37	\$ 22.11	\$ 31.26	141%
Operating Revenue:				
Natural gas	-	-	-	-
Natural gas liquids	-	-	-	-
Oil and condensate	\$ 4,016,972	\$ 1,385,336	\$ 2,631,636	190%
Gain on hedging and derivatives(1)	-	-	-	-

</TABLE>

(1) We did not engage in hedging transactions, including derivatives during the three months ended September 30, 2006, or the three months ended September 30, 2005.

Revenues. We generate revenue under our contract from the sale of oil recovered during test production. During the quarter ended September 30, 2006, we realized revenue from oil sales of \$4,016,972 compared to \$1,385,336 during the quarter ended September 30, 2005. The largest contributing factor to the increase in revenue was the 141% increase in the price per barrel we received for oil sales during the quarter ended September 30, 2006 compared to the fiscal quarter ended September 30, 2005. During the fiscal quarter ended September 30, 2006 we exported our oil to the world markets and realized the world market price for those sales. By comparison, during the fiscal quarter ended September 30, 2005 all oil sales were to the domestic market in Kazakhstan, where the

28

price per barrel of oil is significantly lower than the world market price. Also during the three months ended September 30, 2006, we had one additional well in testing or test production as compared to the three months ended September 30, 2005. We anticipate production will continue to increase in upcoming years as we complete more wells. We plan to continue our drilling activities. We also hope to continue to be granted export quotas, which allow us to realize world market prices. This should continue to lead to increased revenue from oil sales during the upcoming quarters of the current fiscal year as compared to our prior fiscal quarters.

As discussed above, our revenue is sensitive to changes in prices received for our products. Our production is currently being sold at the prevailing world market price, which fluctuates in response to many factors that are outside our control. Imbalances in the supply and demand for oil can have a dramatic effect on the prices we receive for our production. Similarly, if we were denied an export quota and were forced to sell our production to the domestic market in Kazakhstan, we anticipate the price we would receive per barrel of oil would be much lower than the price we currently realize. Political instability, the economy, weather and other factors outside our control could have an impact on both supply and demand.

#### Costs and Operating Expenses

The following table presents details of our expenses for the three months ended September 30, 2006 and 2005:

<TABLE>

<CAPTION>

For the three months ended September 30, 2006	For the three months ended September 30, 2005
-----	-----

<S>	<C>	<C>
Expenses:		
Oil and gas operating(1)	\$ 575,698	\$ 186,434
General and administrative	1,955,246	4,880,514
Depletion	427,477	313,912
Accretion expenses	24,453	-
Amortization and depreciation	41,366	34,368
	-----	-----
Total	\$ 3,024,240	\$ 5,415,228
	=====	=====
Expenses (\$ per BOE):		
Oil and gas operating(1)	7.65	2.98
Depletion (2)	5.68	5.01

</TABLE>

(1) Includes transportation cost, production cost and ad valorem taxes.

(2) Represents depletion of oil and gas properties only.

Oil and Gas Operating Expenses. During the three months ended September 30, 2006 we incurred \$575,698 in oil and gas operating expenses compared to \$186,434 during the three months ended September 30, 2005. This significant increase is primarily the result of several factors. Royalty paid to the Government of \$91,964 during the three months ended September 30, 2006 compared to \$35,765 during the fiscal quarter ended September 30, 2005 increased due to the fact that all sales in the current fiscal quarter were to the world markets and realized the world market price for those sales. By comparison, during the fiscal quarter ended September 30, 2005 all oil sales were to the domestic market in Kazakhstan, where the price per barrel of oil is significantly lower

29

than the world market price. Because of the increase in revenue from oil sales in the current year, we recognized a corresponding increase in our royalty payment. Another reason for increase in oil and gas operating expenses during the three months ended September 30, 2006 is increases in salary expenses and transportation expenses of \$172,593 and \$ 160,472, respectively. Salary and transportation expenses increased primarily because during the current quarter we had two additional wells in testing or test production as compared to the fiscal quarter ended September 30, 2006. This required us to retain additional production and maintenance personnel and oil tankers. While we expect oil and gas operating expenses to continue to increase in upcoming fiscal quarters as the number of wells we have in testing and test production continues to increase we do not expect such increases will be as significant in the future.

General and Administrative Expenses. General and administrative expenses during the three months ended September 30, 2006 were \$1,955,246 compared to \$4,880,514 during the three months ended September 30, 2005. This represents a 60% decrease in general and administrative expenses. The primary contributing factor to this significant decrease was an 82% decrease in payroll and other compensation. During the quarter ended September 30, 2005 we granted restricted stock and stock options to our directors, officers and key employees. Fair value of stock and stock options was recognized in our consolidated financial statements as compensation expense. The total amount of compensation expense recognized as a result of the stock and option grants was \$3,815,158. The decrease in compensation expense during the three months ended September 30, 2006 was partially offset by increased rent expenses of \$34,862, increased professional services of \$150,088 and tax expenses of \$133,895 due to increased environmental payments and transportation expenses, a \$283,250 increase in travel expense and payroll increases of \$211,544 due to hiring of administrative and professional employees during three months ended September 30, 2006. We anticipate general and administrative expenses in upcoming fiscal quarters will remain fairly consistent with the expenses incurred during the three months ended September 30, 2006.

Income from Operations. During the three months ended September 30, 2006 we realized income from operations of \$992,732 compared to a loss from operations of \$4,029,892 during the three months ended September 30, 2005. As discussed above, the change to income from operations in the current quarter compared to a loss from operations in the prior quarter is primarily attributable to the significantly higher price per barrel of oil sold we realized in the current fiscal quarter compared to the same quarter of last fiscal year. Another contributing factor was the reduction in general and administrative expenses in the current fiscal quarter. In future periods, if

production rates, oil prices and expenses do not change materially, we should generate sufficient revenue from oil sales to offset our expenses. If, however, production levels or the price per barrel of oil we realize were to decrease, or expenses were to increase, we would likely be unable to offset our operating expenses with revenue from production and would experience losses from operations.

Other Income. During the fiscal quarter ended September 30, 2006 we realized total other income of \$199,133 compared to \$144,435 during the fiscal quarter ended September 30, 2005. This 38% increase is largely attributable to \$234,831 increase in interest income and \$135,754 increase in realized gain on marketable securities. This income is partially offset by a \$241,186 increase in exchange loss resulting from fluctuations of foreign currency rates against the U.S. Dollar and \$74,701 increase in other expenses. We anticipate the funds held

30

in deposits and marketable securities will be used to fund our operations and therefore expect interest income and gains from marketable securities, both realized and unrealized, to decrease in upcoming quarters.

Net Income. For the reasons discussed above, during the three months ended September 30, 2006 we realized a net income of \$1,016,352 compared to a net loss of \$3,885,457 for the three months ended September 30, 2005.

Six months ended September 30, 2006, compared to the six months ended September 30, 2005

#### Revenue and Production

The following table summarizes production volumes, average sales prices and operating revenue for our oil and natural gas operations for the six months ended September 30, 2006 and the six months ended September 30, 2005.

<TABLE>

<CAPTION>

	For the six months ended September 30, 2006	Six months ended September 30, 2006 to the six months ended September 30, 2005			
		For the six months ended September 30, 2005	\$ Increase (Decrease)	% Increase (Decrease)	
	<C>	<C>	<C>	<C>	
<b>Production volumes:</b>					
Natural gas (Mcf)	-	-	-	-	
Natural gas liquids (Bbls)	-	-	-	-	
Oil and condensate (Bbls)	126,031	111,821	14,210	13%	
Barrels of Oil equivalent (BOE)	126,031	111,821	14,210	13%	
<b>Average Sales Price</b>					
Natural gas (\$ per Mcf)	-	-	-	-	
Natural gas liquids (\$ per Bbl)	-	-	-	-	
Oil and condensate (\$ per Bbl)	\$ 53.08	\$ 20.58	\$ 32.50	158%	
Barrels of Oil equivalent (\$ per BOE)	\$ 53.08	\$ 20.58	\$ 32.50	158%	
<b>Operating Revenue:</b>					
Natural gas	-	-	-	-	
Natural gas liquids	-	-	-	-	
Oil and condensate	\$ 6,362,944	\$ 2,047,973	\$ 4,314,971	211%	
Gain on hedging and derivatives(1)	-	-	-	-	

</TABLE>

(1) We did not engage in hedging transactions, including derivatives during the six months ended September 30, 2006, or the three months ended September 30, 2005.

31



Revenues. We generate revenue under our contract from the sale of oil recovered during test production. During the six months ended September 30, 2006, we realized revenue from oil sales of \$6,362,944 compared to \$2,047,973 during the six months ended September 30, 2005. The largest contributing factor to the increase in revenue was a 158% increase in the price per barrel we received for oil sales during the six month period ended September 30, 2006 compared to the six month period ended September 30, 2005. During the six months ended September 30, 2006 we exported our oil to the world markets and realized the world market price for those sales. By comparison, during the six months ended September 30, 2005 all oil sales were to the domestic market in Kazakhstan, where the price per barrel of oil is significantly lower than the world market price. Also during the six months ended September 30, 2006, we had an additional well in testing or test production as compared to the six months ended September 30, 2005. As discussed above, we anticipate production and revenue will continue to increase in upcoming years. We plan to continue drilling activities in the upcoming periods. We also hope to continue to be granted export quotas, which allow us to realize world market prices. If we continue to be granted export quotas, we should continue to realize higher revenues from oil sales compared to our prior fiscal years because of the increased price per barrel we will realize from oil sales to the world market.

#### Costs and Operating Expenses

The following table presents details of our expenses for the six months ended September 30, 2006 and 2005:

<TABLE>

<CAPTION>

	For the six months ended September 30, 2006	For the six months ended September 30, 2005
<S>	<C>	<C>
Expenses:		
Oil and gas operating(1)	\$ 990,573	\$ 266,707
General and administrative	7,322,942	5,881,752
Depletion	667,968	665,644
Accretion expenses	64,058	-
Amortization and depreciation	76,511	64,806
Total	\$ 9,122,052	\$ 6,878,909
Expenses (\$ per BOE):		
Oil and gas operating(1)	8.26	2.68
Depletion (2)	5.57	6.69

</TABLE>

(1) Includes transportation cost, production cost and ad valorem taxes.

(2) Represents depletion of oil and gas properties only.

Oil and Gas Operating Expenses. During the six months ended September 30, 2006 we incurred \$990,573 in oil and gas operating expenses compared to \$266,707 during the six months ended September 30, 2005. This significant increase is primarily the result of several factors. During the six months ended September 30, 2006 royalties paid to the government increased 147% compared to

the six months ended September 30, 2005. This increase resulted from the fact that all sales in current six-month period were to the world markets and realized the world market price for those sales. By comparison, during the six month period ended September 30, 2005 all oil sales were to the domestic market in Kazakhstan, where the price per barrel of oil is significantly lower than the world market price. Another reason for increase in oil and gas operating expenses is increase in salary expenses and transportation expenses for \$323,124 and \$344,286, respectively. These expenses increased primarily because during the six months ended September 30, 2006 we had two additional wells in testing or test production as compared to the six months ended September 30, 2005. This required attraction of more production and maintenance personnel and additional oil tankers. While we expect oil and gas operating expenses to continue to increase in the upcoming fiscal year as revenue continues to increase we do not expect such increases will be as significant in the future.

General and Administrative Expenses. General and administrative expenses during the six months ended September 30, 2006 were \$7,322,942 compared

to \$5,881,752 during the six months ended September 30, 2005. This represents a 25% increase in general and administrative expenses. This increase is attributable to a 18% increase in payroll and other compensation. During the six-month period ended September 30, 2006 we granted restricted stock and stock options to our directors, officers and key employees. The fair value of these stock and stock option grants was recognized in our consolidated financial statements as compensation expense. The total amount of compensation expense recognized as a result of the stock and option grants was \$4,010,346. During the six-month period ended September 30, 2005 we also granted restricted stock and stock options to our directors, officers and key employees. The total amount of compensation expense recognized as a result of the stock and option grants was \$3,815,158. Other factors contributing to the increase in general and administrative expense were a 10% increase in rent expense an 83% increase in professional services fees and a 404% increase in taxes resulting from increased environmental payments and a 298% increase in travel and related expenses resulting from increased business travel. We anticipate increases in revenue will outpace the increases in general and administrative expenses in upcoming quarters.

Loss from Operations. During the six months ended September 30, 2006 we realized a loss from operations of \$2,759,108 compared to a loss from operations of \$4,830,936 during the six months ended September 30, 2005. We realized a 211% increase in revenue during the six month period ended September 30, 2006 compared to the comparable period 2005, this increase was offset by a 271% increase in oil and gas operating expenses and a 25% increase in general and administrative expenses. This resulted in a 43% decrease in loss from operations during the six months ended September 30, 2006 compared to the six months ended September 30, 2005. While we experienced a loss from operations during the six-month period ended September 30, 2006, we did realize income from operations during the three-month period ended September 30, 2006. In future periods, if production rates, oil prices and expenses do not change materially, we should generate sufficient revenue from oil sales to offset our expenses. If, however, production levels or the price per barrel of oil we realize were to decrease, or expenses were to increase, we would likely be unable to offset our operating expenses with revenue from production and would experience losses from operations.

33

Other Income. During the six-month period ended September 30, 2006 we realized total other income of \$810,212 compared to \$85,874 realized during the fiscal quarter ended September 30, 2005. This 843% change is largely attributable to \$378,093 increase in interest income, \$320,260 increase in realized gain on marketable securities, \$120,205 increase in unrealized gains on marketable securities and \$49,873 increase in exchange gain resulting from fluctuations of foreign currency rates against the U.S. Dollar. This income was partially offset by a \$144,093 increase in other expenses. We anticipate the funds held in deposits and marketable securities will be used to fund our operations and therefore expect interest income and gains from marketable securities, both realized and unrealized, to decrease in upcoming quarters.

Net Loss. During the six-month period ended September 30, 2006 we realized a net loss of \$2,124,409 compared to a net loss of \$4,745,062 during the comparable period of 2005. Due to the significant increase in revenue resulting from increased oil production during the six months ended September 30, 2006 net loss decreased significantly. We anticipate that we will continue to realize significant increases in revenue as our production levels continue to increase. Based on these expectations, we anticipate net losses in upcoming quarters will continue to decrease.

#### Liquidity and Capital Resources

Funding for our activities has historically been provided by funds raised through the sale of our common stock. From inception on May 6, 2003 through September 30, 2006 we have raised \$94,626,926 through the sale of our common stock. As of September 30, 2006 we had cash and cash equivalents on hand of \$34,283,815. We anticipate our capital resources in the upcoming three months will likewise consist primarily of revenue from the sale of oil recovered.

Our need for capital is primarily to fund our ongoing operations to meet the drilling requirements of our minimum work program. For the period from inception on May 6, 2003 through September 30, 2006, we have incurred capital expenditures of \$80,583,564 for exploration, development and acquisition

activities.

We continually evaluate our capital needs and compare them to our capital resources. At the beginning of the current fiscal year we had budgeted capital expenditures of about \$60 million to \$70 million for exploration, development, production and acquisitions. At the time the budget was prepared, we believed our production would be sufficient to allow us to generate enough revenue from oil sales to finance the gap of \$10 million to \$20 million required for our planned exploration, development, production and acquisitions. However, the drilling schedules we initially anticipated have been delayed and production has developed more slowly than expected.

One of the challenging tasks we have faced is how to make accurate production forecasts during the exploration stage. There are many factors that contribute to the complexity of reliable forecasting by an exploration stage company. Our first challenge has been to secure qualified drilling subcontractors and to obtain timely performance. The current energy boom in

34

Kazakhstan has created considerable competition for good rigs and qualified labor. In the case of the heavy rig of Great Wall, the original estimate scheduled a new heavy rig in place in March 2006. It was July 2006 before the rig was in place and ready to begin drilling the Dolinnoe-6 well. The delay was not the fault of the driller, but arose from delay at the China-Kazakhstan border.

Second, we are in continuous test production on each well. We are required by law to test each interval using different choke sizes. The minimum testing periods usually extend over a period of months. There is considerable down time while equipment is being put in place and removed during this process. In addition, we have experimented with various reworking methodologies attempting to determine the best methods to suit the characteristics of the oil, gas and pressure variations encountered in each structure.

Although our monthly production figures have remained steadily within a range below our expectations, at our current levels of oil production we are operating above the break-even point, exclusive of our drilling program expenditures. However, if our operations are to generate a significant portion of the future capital needed to complete our exploration contract, then our monthly production will have to increase significantly. In addition to our efforts to increase revenue from oil sales to help fund our drilling program expenditures, we are also negotiating with interested banks to secure a credit facility that will allow us to continue our exploration contract drilling obligations without delay.

#### Cash Flows

During the six month ended September 30, 2006 cash was primarily used to fund exploration and development expenditures. We had a net increase in cash and cash equivalents of \$16,237,692 during the current fiscal quarter. See below for additional discussion and analysis of cash flow.

<TABLE>

<CAPTION>

	Six months ended September 30, 2006	Six months ended September 30, 2005
	-----	-----
	<C>	<C>
Net cash used in operating activities	\$ 27,119,443	\$ (4,891,741)
Net cash used in investing activities	\$ (16,640,253)	\$ (9,418,727)
Net cash provided by financing activities	\$ 5,758,502	\$ 6,085,619
	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ 16,237,692	\$ (8,224,849)

</TABLE>

During the six months ended September 30, 2006, we spent \$14 million in exploration, development and production. We funded these expenditures primarily from cash on hand and oil sales revenue. We anticipate revenue to increase in upcoming quarters as we drill new wells and increase production from our existing wells.

Certain operating cash flows are denominated in local currency and are translated into U.S. dollars at the exchange rate in effect at the time of the transaction. Because of the potential for civil unrest, war and asset expropriation, some or all of these matters, which impact operating cash flow, may affect our ability to meet our short-term cash needs.

#### Contractual Obligations and Contingencies

The following table lists our significant commitments at September 30, 2006, excluding current liabilities as listed on our consolidated balance sheet:

<TABLE>

<CAPTION>

Contractual obligations	Payments Due By Period				
	Total year	Less than 1 year	1-3 years	4-5 years	After 5 years
<S>	<C>	<C>	<C>	<C>	<C>
Capital Expenditure Commitment(1)	\$ 10,500,000	\$ 6,000,000	\$ 4,500,000	-	-
Due to the Government of the Republic of Kazakhstan(2)	\$ 11,344,880	-	\$ 11,344,880	-	-
Liquidation Fund	\$ 988,650	-	\$ 988,650	-	-
<b>Total</b>	<b>\$ 22,833,530</b>	<b>\$ 6,000,000</b>	<b>\$ 16,833,530</b>	<b>-</b>	<b>-</b>

</TABLE>

- (1) Under the terms of our contract with the ROK, we are required to spend a total of at least \$10.5 million dollars in exploration, development and improvements within the ADE Block, as extended during the term of the license, including \$6 million in the 2006 calendar year and \$4.5 million in the 2007 calendar year. If we fail to do so, we may be subject to the loss of our exploration license.
- (2) In connection with our acquisition of the oil and gas contract covering the ADE Block and the Extended Territory, we are required to repay the ROK for historical costs incurred by it in undertaking geological and geophysical studies and infrastructure improvements. The repayment terms of this obligation will not be determined until such time as we apply for and are granted commercial production rights by the ROK. Under our contract, if we wish to commence commercial production, we must apply for such right prior to the expiration of our exploration and development rights in July 2007 or we must apply for a two-year extension of our exploration license. We are legally entitled to the two-year extension. We are also legally entitled to receive commercial production rights and have the exclusive right to negotiate such with the ROK, and the ROK is required to conduct the negotiations under the Law of Petroleum in Kazakhstan. Although we can apply for commercial production rights at any time, we enjoy certain benefits under our contract that currently make it more economically advantageous for us to continue exploration and development activities at this time. At this time, we anticipate that we will apply for a two-year extension of our exploration license during the first half of the 2007 calendar year. This would give us an additional two years to explore and prove up our properties before we apply for commercial production rights. Should we decide not to pursue a commercial production contract, we can relinquish the ADE Block and Extended Territory to the ROK in satisfaction of this obligation. Our repayment obligation for the ADE Block is \$5,994,200. Our repayment obligation for the Extended Territory is \$5,350,680.

#### Off-Balance Sheet Financing Arrangements

As of September 30, 2006, we had no off-balance sheet financing arrangements.

#### Item 3. Qualitative and Quantitative Disclosures About Market Risk

Our primary market risks are fluctuations in commodity prices and foreign currency exchange rates. We do not currently use derivative commodity

instruments or similar financial instruments to attempt to hedge commodity price risks associated with future crude oil production.

#### Commodity Price Risk

Our revenues, profitability and future growth depend substantially on prevailing prices for crude oil. Prices also affect the amount of cash flow available for capital expenditures and our ability to either borrow or raise additional capital. Price affects our ability to produce crude oil economically and to transport and market our production either through export to international markets or within Kazakhstan. Our second quarter 2006 crude oil sales in the international export market were based on prevailing market prices at the time of sale less applicable discounts due to transportation.

Historically, crude oil prices have been subject to significant volatility in response to changes in supply, market uncertainty and a variety of other factors beyond our control. Crude oil prices are likely to continue to be volatile and this volatility makes it difficult to predict future oil price movements with any certainty. Any declines in oil prices would reduce our revenues, and could also reduce the amount of oil that we can produce economically. As a result, this could have a material adverse effect on our business, financial condition and results of operations.

#### Foreign Currency Risk

Our functional currency is the U.S. dollar. Emir Oil, LLP, our Kazakhstani subsidiary, also uses the U.S. dollar as its functional currency. To the extent that business transactions in Kazakhstan are denominated in the Kazakh Tenge we are exposed to transaction gains and losses that could result from fluctuations in the U.S. Dollar--Kazakh Tenge exchange rate. We do not engage in hedging transactions to protect the Company from such risk.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our principal executive officers and our principal financial officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Such officers have concluded (based upon their evaluations of these controls and procedures as of the end of the period covered by this report) that our disclosure controls and procedures are effective to ensure that information required to be disclosed by it in this report is accumulated and communicated to management, including the Certifying Officers as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Certifying Officers have concluded that our disclosure controls and procedures are effective as of September 30, 2006.

37

##### Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2006 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### PART II - OTHER INFORMATION

##### Item 1. Legal Proceedings

In December 2003, a complaint was filed in the 15th Judicial Court in and for Palm Beach County, Florida, naming, among others, us, Georges Benarroch and Alexandre Agaian, former BMB directors, as defendants. The plaintiffs, Brian Savage, Thomas Sinclair and Sokol Holdings, Inc., allege claims of breach of contract, unjust enrichment, breach of fiduciary duty, conversion and violation of a Florida trade secret statute in connection with a business plan for the development Aksaz, Dolinnoe and Emir oil and gas fields owned by Emir Oil, LLP. The parties mutually agreed to dismiss this lawsuit without prejudice.

In April 2005, Sokol Holdings, Inc., also filed a complaint in United States District Court, Southern District of New York alleging that BMB Munai,

Inc., Boris Cherdabayev, Alexandre Agaian, Bakhytbek Baiseitov, Mirgali Kunayev and Georges Benarroch wrongfully induced Tolesh Tolmakov to breach a contract under which Mr. Tolmakov had agreed to sell to Sokol 70% of his 90% interest in Emir Oil LLP.

In October 2005, Sokol Holdings amended its complaint in the U.S. District Court in New York to add Brian Savage and Thomas Sinclair as plaintiffs and to add Credifinance Capital, Inc., and Credifinance Securities, Ltd., (collectively "Credifinance") as defendants in the matter. The amended complaint alleges tortious interference with contract, specific performance, breach of contract, unjust enrichment, breach of fiduciary duty by Georges Benarroch, Alexandre Agaian and Credifinance, conversion, breach of fiduciary duty by Boris Cherdabayev, Mirgali Kunayev and Bakhytbek Baiseitov, misappropriation of trade secrets, tortious interference with fiduciary duty by Mr. Agaian, Mr. Benarroch and Credifinance and aiding and abetting breach of fiduciary duty by Mr. Benarroch, Mr. Agaian and Credifinance in connection with a business plan for the development of the Aksaz, Dolinnoe and Emir oil and gas fields owned by Emir Oil, LLP. The plaintiffs have not named Tolesh Tolmakov as defendant in the action nor have the plaintiffs ever brought claims against Mr. Tolmakov to establish the existence or breach of any legally binding agreement between the plaintiffs and Mr. Tolmakov. The plaintiffs seek damages in an amount to be determined at trial, punitive damages, specific performance and such other relief as the Court finds just and reasonable.

We have retained the law firm of Bracewell & Giuliani LLP in New York, New York to represent us in the lawsuit. We moved for dismissal of the amended complaint or for a stay pending arbitration in Kazakhstan. That motion was denied, without prejudice to renewing it, to enable defendants to produce

38

documents to plaintiffs relating to the issues raised in the motion. Following completion of document production, the motion has been renewed. Briefing on the motion was completed on August 24, 2006, and the motion is awaiting decision.

In the opinion of management, the resolution of this lawsuit will not have a material adverse effect on our financial condition, results of operations or cash flows.

Other than the foregoing, to the knowledge of management, there is no other material litigation or governmental agency proceeding pending or threatened against the Company or our management.

#### Item 1A. Risk Factors

There have been no material changes in the risk factors previously described in Items 1 and 2 to Part I of our Form 10-KSB filed on June 29, 2006.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of equity securities during the fiscal quarter ended September 30, 2006.

#### Item 4. Submission of Matters to a Vote of Security Holders

On October 5, 2006, we held our annual meeting of stockholders. The total number of shares entitled to vote at the meeting was 43,690,652. The number of shares represented at the annual meeting of stockholders, present or by proxy was 26,586,774. At the meeting the shareholders were asked to vote on the following matter:

- 1) To elect two Class II directors to our board of directors.

The nominees for Class II directors were Stephen Smoot, who had been serving as a member of the board of directors and Leonard Stillman, who was a new nominee to the board of directors. The following individuals were elected to the board of directors for a term of three years and until their respective successors shall be elected.

	For	Withhold
	-----	-----
Class II Directors:		
Stephen Smoot	26,353,591	233,183

The terms of Valery Tolkachev and Troy Nilson, Class I directors, and Boris Cherdabayev, a Class III director will continue after the meeting.

No other items were submitted to a vote of our shareholders at the meeting.

39

#### Item 5. Other Information

On September 7, 2006, Mr. Georges Benarroch tendered his resignation as a director of BMB Munai, Inc., (the "Company"). Mr. Benarroch was not a member of any committee of the board of directors. Mr. Benarroch's resignation was not the result of any disagreement with the Company on any matter relating to our operations, policies or practices. Mr. Benarroch's resignation did not arise from any act or omission which would constitute grounds for removal for cause under our bylaws.

During the quarter, our common stock was approved for listing on the American Stock Exchange. Our common stock began trading on the American Stock Exchange under the symbol "KAZ" on September 21, 2006.

#### Item 6. Exhibits

Exhibits. The following exhibits are included as part of this report:

- Exhibit 31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.1 Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.2 Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

#### SIGNATURES

In accordance with Section 12 of the Securities Exchange Act of 1934, the registrant caused this registration statement to be signed on its behalf, thereunto duly authorized.

BMB MUNAI, INC.

Date: November 9, 2006

/s/ Boris Cherdabayev

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Boris Cherdabayev,  
Chief Executive Officer

Date: November 9, 2006

/s/ Sanat Kasymov

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Sanat Kasymov,  
Chief Financial Officer

40

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Boris Cherdabayev, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of BMB Munai, Inc. (the "Company");

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the consolidated financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;

(4) The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-15(f)) for the Company and have:

(a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the Company, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles;

(c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation; and

(d) Disclosed in this quarterly report any change in the Company's internal controls over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting; and

(5) The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons fulfilling the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.



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Boris Cherdabayev,  
Principal Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Sanat Kasymov, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of BMB Munai, Inc. (the "Company");

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the consolidated financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;

(4) The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-15(f)) for the Company and have:

(a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the Company, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles;

(c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation; and

(d) Disclosed in this quarterly report any change in the Company's internal controls over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting; and

(5) The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons fulfilling the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

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Sanat Kasymov,  
Principal Financial Officer

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL  
EXECUTIVE OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report of BMB Munai, Inc., on Form 10-Q for the period ended September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Boris Cherdabayev, Principal Executive Officer of the Company, certifies, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 9, 2006

/s/ Boris Cherdabayev

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Boris Cherdabayev,  
Principal Executive Officer

EXHIBIT 32.2

CERTIFICATION OF PRINCIPAL  
FINANCIAL OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report of BMB Munai, Inc., on Form 10-Q for the period ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Sanat Kasymov, Principal Financial Officer of the Company, certifies, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 9, 2006

/s/ Sanat Kasymov

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Sanat Kasymov,  
Principal Financial Officer