

United States  
Securities and Exchange Commission  
Washington, DC 20549

FORM 10-KSB/A-1

Annual Report under Section 13 or 15(d) of  
The Securities Exchange Act of 1934

For the Fiscal Year Ended

**March 31, 2006**

Commission File Number

**000-28638**

**BMB MUNAI, INC.**

(Exact name of registrant as specified in its charter)

**NEVADA**

(State or other jurisdiction of incorporation or organization)

**30-0233726**

(I.R.S. Employer Identification No.)

**202 Dostyk Ave. 4th Floor, Almaty, Kazakhstan 050051**

(Address of principal executive offices)

**+7 (3272) 37-51-25/31**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act: Common Stock \$0.001 Par Value.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Check if there is no disclosure of delinquent filers in response to item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is an accelerated filer. YES  NO

The registrant's revenues for its most recent fiscal year: \$5,956,731

The aggregate market value of the voting stock held by non-affiliates based on the average bid and ask prices of such stock on June 22, 2006 was approximately \$202,301,934.

As of June 22, 2006, the registrant had 43,740,657 shares of its \$.001 par value common stock outstanding.

Transitional small business disclosure format (check one) Yes  No

DOCUMENTS INCORPORATED BY REFERENCE: None

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**FORM 10-KSB/A-1**  
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## Explanatory Note to Amendment No. 1 to Annual Report on Form 10-K

BMB Munai, Inc. (the “Company”) is filing this Amendment No. 1 on Form 10-KSB/A-1 (the “Amendment”) to its Annual Report for the fiscal year ended March 31, 2006, which was filed with the Securities and Exchange Commission on June 29, 2006 (the “Original Annual Report”) in response to certain comments raised by the staff of the Securities and Exchange Commission.

Items 1 and 2 “*Business and Properties*” of the Original Annual Report is hereby revised to clarify certain disclosures contained in the table disclosing “Proved Reserves” on page 7 hereof, including the removal of certain disclosures of non-GAAP measures to bring the table into conformity with SFAS 69. Certain risk factors have also been revised to more accurately reflect the risk we face in developing our proved undeveloped properties and disclosures.

Item 6 “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” of the Original Annual Report is hereby revised to provide additional disclosure regarding the method used by the Company to calculate its per unit costs and to explain why its per unit cost declined in fiscal 2006. Item 6 is also hereby revised to provide disclosure of the reasons for the year-over-year increase in depletion, depreciation and amortization expenses and to include disclosure regarding the adoption by the Company of SFAS 123(R) and to reflect the revisions to our financial statements as discussed in more detail in the following paragraph.

Item 7 “*Financial Statements*” of the Original Annual Report is hereby revised to include the auditor’s report relating the financial statements as of and for the year ended March 31, 2005. The “*Consolidated Statements of Cash Flows*” for the year ended March 31, 2006 of the Original Annual Report is hereby revised to reclassify marketable securities from operating activities to investing activities. Additionally, amounts previously reported as marketable securities were reclassified to be presented as cash equivalents within both the “*Consolidated Balance Sheets*” and the “*Consolidated Statements of Cash Flows*” for 2006 and 2005; certain footnote disclosures were revised to reflect this change in classification. The reclassification had no effect on net income. The disclosure is also hereby revised to expand our revenue recognition policy. Other footnote disclosures were revised in response to the SEC comments.

Item 7 “*Financial Statements*” of the Original Annual Report is also hereby revised to include changes to Note 21 of the Notes to the Consolidated Financial Statements, including a change to the “*Costs Incurred*” table included in Note 21. In the Original Annual Report we presented “*Costs Incurred*” on a cumulative basis. In this Second Amendment the table has been revised to present “*Costs Incurred*” on a yearly basis consistent with Financial Accounting Standard 69. As a result of this change, “*Total Costs Incurred*” during the years ended March 31, 2006 and 2005 decreased from \$68,079,938 and \$49,401,710, respectively to \$18,678,228 and \$36,536,625, respectively.

Item 8A “*Disclosure Controls and Procedures*” of the Original Annual Report is hereby revised to include disclosure that there were no changes to the Company’s internal controls over financial reporting during the year ended March 31, 2006 that materially affected or are reasonably likely to materially affect the Company’s internal controls over financial reporting.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, this Amendment also includes currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certification exhibits and Item 13 "Exhibits" have been revised accordingly. Item 13 has also been revised to include the consent of BDO Kazakhstanaudit, LLP to the incorporation by reference of this Amended Annual Report in the Registration Statement of the Company on Form S-3, as amended, currently on file with the Securities and Exchange Commission.

This Amendment speaks only of the original filing date of the Original Annual Report and, except for those Items disclosed in this explanatory note, is unchanged from the Original Annual Report. This Amendment does not reflect events after the filing of the Original Annual Report or modify or update those disclosures affected by subsequent events. Therefore, you should read this Amendment together with our other reports that update and supersede the information contained in this Amendment.

#### **BMB MUNAI, INC.**

*Unless otherwise indicated by the context, references herein to the "Company", "BMB", "we", "our" or "us" means BMB Munai, Inc., a Nevada corporation, and its corporate subsidiaries and predecessors.*

#### **Forward Looking Information**

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 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 natural gas and oil, results for 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.

## PART I

### Items 1 and 2. Business and Properties

#### 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.”

We generate revenue, income and cash flow by producing and marketing crude oil from production from our oil properties. We make significant capital expenditures in our exploration and development activities that we anticipate will allow us to increase and improve our ability to generate revenue. Our drilling strategy is focused toward enhancing cash flows by drilling developmental wells and increasing proved developed reserves by drilling developmental wells within a proximity of existing wells, (which we believe decreases our likelihood of drilling a dry hole), while at the same time increasing our current production and cash flow. As our cash flow and proved developed reserves grow, we will begin drilling exploratory wells to find new reservoirs or extend known reservoirs. We believe this strategy will result in growth of proved developed reserves, production and financial strength.

Until recently, we were deemed to be a development stage company. To date, we have relied primarily on funds raised through the sell of our equity securities to fund operations. We currently use more cash in operations than we generate. We believe, however, that we have now raised sufficient capital to fund exploration and development of our properties to a point where the revenue derived from our properties will be sufficient to meet our future operating needs.

#### Industry and Economic Factors

In managing our business, we must deal with many factors inherent in our industry. First and foremost is the fluctuation of oil and gas prices. Historically, oil and gas markets have been cyclical and volatile, with future price movements that are difficult to predict. While our revenues are a function of both production and prices, wide swings in commodity prices will likely have the greatest impact on our results of operations. We have no way of predicting those prices or of controlling them without losing an advantage from a potential upswing. The oil and gas industry has continued to experience high commodity prices in 2005 and 2006, which has positively impacted the entire industry as well as our Company.

Our operations entail significant complexities. Advanced technologies requiring highly trained personnel are utilized in both exploration and development. Even when the technology is properly used, we still may not know conclusively whether hydrocarbons will be present nor the rate at which they may be produced. Despite our best efforts to limit risk, exploration is a high-risk activity, often times resulting in no discovery of commercially productive reserves. Moreover, operating costs in our industry are substantial.

Our business, as with other extractive industries, is a depleting one in which each oil and gas equivalent produced must be replaced or our business, and a critical source of future liquidity, will shrink.

## **Strategy**

Our goal is to increase stockholder value by investing in oil and natural gas projects with attractive rates of return on capital employed. We plan to achieve this goal by exploiting and developing our existing oil and gas properties and pursuing the acquisition of additional properties. We have and will continue to focus on the following:

*Increasing our Production and Cash Flow.* To sustain our operations we need capital. To date most of our operating capital has come from the sale of our securities. We believe that to increase shareholder value and economic stability, we must increase our revenues through increased production. For this reason, we have focused our efforts on drilling developmental wells strategically located within proved areas with the intent to drill wells with a high probability of success. We believe this strategy will allow us to increase our current production and correspondingly our cash flows.

*Developing and Exploiting Existing Properties.* We believe that there is significant value to be created by drilling the identified undeveloped opportunities on our properties. We own interest in 640 gross (640 net) developed acres, plus 160 gross (160 net) acres of proved undeveloped reserves. We also own interest in approximately 49,950 gross (49,950 net) unproved, undeveloped acres. Our budgeted capital expenditures for the upcoming fiscal year are about \$60 million to \$70 million for exploration, development, production and acquisitions. We expect to fund these expenditures with cash on hand and revenue from operations. We believe our export quota and favorable world market prices will allow us to generate sufficient oil and gas revenues to finance the shortfall of \$10 million to \$20 million in our budget required for our planned exploration, development, production and acquisitions.

*Pursuing Profitable Acquisitions.* While our emphasis in fiscal 2007 is anticipated to focus on the further development of our existing properties, we will continue to look for properties with both existing cash flow from production and future development potential. We intend to pursue acquisitions of properties that we believe will provide attractive rates of return on capital invested. We have an experienced team of management professionals who will identify and evaluate acquisition opportunities.

## Oil and Natural Gas Reserves

The following table sets forth our estimated net proved oil and natural gas reserves and the standardized measure of discounted future net cash flows related to such reserves as of March 31, 2006. We engaged Chapman Petroleum Engineering, Ltd. (“Chapman”), to estimate our net proved reserves, projected future production and the standardized measure of discounted future net cash flows as of March 31, 2006. Chapman’s estimates are based upon a review of production histories and other geologic, economic, ownership and engineering data provided by us. Chapman has independently evaluated our reserves for the past twelve months. In estimating the reserve quantities that are economically recoverable, Chapman used oil and natural gas prices in effect as of March 31, 2006 without giving effect to hedging activities. In accordance with requirements of the Securities and Exchange Commission (the “SEC”) regulations, no price or cost escalation or reduction was considered by Chapman. The standardized measure of discounted future net cash flows is not intended to represent the current market value of our estimated oil and natural gas reserves. The oil and natural gas reserve data included in or incorporated by reference in this document are only estimates and may prove to be inaccurate.

|   | Proved reserves to be recovered by<br>June 30, 2009(1) |                | Proved reserves to be recovered after<br>June 30, 2009(1) |                | Total     |
|---|--|----------------|---|----------------|-----------|
|   | Developed(2)   | Undeveloped(3) | Developed(2)  | Undeveloped(3) |           |
| Oil and condensate<br>(MBbls)(4)  | 2,064  | 185            | 9,104   | 2,395          | 13,748    |
| Natural gas (MMcf)  | -  | -              | -   | -              | -         |
| Total BOE<br>(MBbls)  | 2,064  | 185            | 9,104   | 2,395          | 13,748    |
| Standardized<br>Measure of<br>discounted future<br>net cash flows(5) (in<br>thousands of U.S.<br>Dollars) |  |                |   |                | \$102,645 |

- (1) Under our license with the Republic of Kazakhstan we have the right to sell the oil and natural gas we produce while we undertake exploration stage activities within our licensed territory. As discussed in more detail in “Risk Factors” and “Description of Properties” we have the right to engage in exploration stage activities until June 30, 2009. To retain our rights to produce and sell oil and natural gas after that date, we must apply for and be granted commercial production rights by no later than June 30, 2009. If we are not granted commercial production rights by that time, we would expect to lose our rights to the licensed territory and would expect to be unable to produce reserves after June 30, 2009.
- (2) Proved developed reserves are proved reserves that are expected to be recovered from existing wells with existing equipment and operating methods.
- (3) Proved undeveloped reserves are proved reserves which are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.
- (4) Includes natural gas liquids.
- (5) The standardized measure of discounted future net cash flows represents the present value of future net cash flow net of all taxes.

Throughout this annual report all references to dollar amounts (\$) refer to U.S. dollars unless otherwise indicated.

The reserve data set forth herein represents estimates only. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, estimates made by different engineers often vary from one another. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimates, and such revisions may be material. Accordingly, reserve estimates are generally different from the quantities of oil and natural gas that are ultimately recovered. Furthermore, the estimated future net revenue from proved reserves and the present value thereof are based upon certain assumptions, including current prices, production levels and costs that may not be what is actually incurred or realized.

No estimates of proved reserves comparable to those included herein have been included in reports to any federal agency other than the SEC.

In accordance with SEC regulations, the Chapman Report used oil and natural gas prices in effect at March 31, 2006. The prices used in calculating the standardized measure of discounted future net cash flows attributable to proved reserves do not necessarily reflect market prices for oil and natural gas production subsequent to March 31, 2006. There can be no assurance that all of the proved reserves will be produced and sold within the periods indicated, that the assumed prices will actually be realized for such production or that existing contracts will be honored or judicially enforced.

## **Production**

All of our six wells are currently in workover, testing or test production. According to the laws of the Republic of Kazakhstan, we are required to test every prospective object on our properties separately, this includes the completion of well surveys on different modes with various choke sizes on each horizon. This testing can take up to three months per horizon.

In the course of well testing, when the transfer from object to object occurs, the well must be shut in; oil production ceases for the period of mobilization/ demobilization of the workover rig, pull out of hole, run in hole, perforation, packer installation time, etc. This has the effect of artificially diminishing production rates.

Based on the testing we have completed, which represents production from only one interval per well at a time, the overall daily production rate from our six wells ranges from 575 bpd to 885 bpd, depending on choke sizes, well bore conditions, etc. Because this only accounts for one zone per well, this may not be representative of the cumulative total production rate from all of the tested intervals in each of the wells.

During the third quarter of the 2006 fiscal year we were realizing total daily production ranging as high as 2,100 bpd. In the process of expanding the perforated oil-bearing zone of the Dolinnoe-3 well, however, the well was damaged and had to be shut-in to avoid a blow out of the well. We have since re-entered the Dolinnoe-3 well, but to date, have not realized the flow rates experienced prior to shut-in. We are planning additional workover of the Dolinnoe-3 well in hopes of restoring flow rates to levels experienced prior to shutting-in the well.



Following is a brief description of the current production status of each of our six 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 an 8 mm diameter choke ranges from 115 to 180 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 from 115 to 200 bpd.

#### Dolinnoe-2

Currently this well is also producing, although workover operations, including acid treatment, are ongoing in an effort to increase production from this well. Prior to workover, we had tested six producing intervals. Current production rates from single interval testing using a 8 mm diameter choke ranges from 125 to 190 bpd.

#### Dolinnoe-3

This well is currently producing. We have tested two producing intervals and intend to test additional intervals as required under our exploration contract. Current production from single interval testing using a 2 mm diameter choke ranges from 220 to 315 bpd.

Following completion of this well in April 2005, flow rates from Dolinnoe-3 ranged from 600 to 1,200 bpd. During the current calendar year, we planned to perforate the remaining seven meters of the oil-bearing horizon. In the process of perforating the remaining seven meters, however, the well was damaged and had to be shut-in to avoid a blow out. Following shut-in of the well, we have undertaken acid and oil baths, using a dry hydrochloric mixture, to clean the wellbore. Since putting the well back on production, however, we have realized lower flow rates. These lower flow rates indicate that some of the materials used to shut-in the well still remain in hole, blocking some of the perforation zones. We are currently planning additional regular hydrochloric acid treatment to further clean the well in hopes of restoring flow rates to levels experienced prior to shutting-in the well.

This well is not currently producing. We have completed workover operations on this well and the well is currently under inflow stimulation. We plan to conduct acid treatment in this well to improve production. Prior to the workover four producing intervals were tested. Single interval production from this well prior to workover was 40 to 50 bpd.

### Cost Information

#### Capitalized Costs

Capitalized costs and accumulated depletion, depreciation and amortization relating to our oil and natural gas producing activities, all of which are conducted in the Republic of Kazakhstan, are summarized below:

|  | <u>March 31, 2006</u> | <u>March 31, 2005</u> |
|--|-----------------------|-----------------------|
| Developed oil and natural gas properties             | \$ 68,079,938         | \$ 49,401,710         |
| Unevaluated oil and natural gas properties           | -                     | -                     |
| Accumulated depletion, depreciation and amortization | (1,396,641)           | (229,406)             |
| Net capitalized cost                                 | <u>\$ 66,683,297</u>  | <u>\$ 49,172,304</u>  |

### Exploration, Development and Acquisition Capital Expenditures

The following table sets forth certain information regarding the total costs incurred associated with exploration, development and acquisition activities.

|                        | <u>For the year ended<br/>March 31, 2006</u> | <u>For the year ended<br/>March 31, 2005</u> |
|------------------------|--|--|
| Acquisition costs:     |  |  |
| Unproved properties    | \$ -   | \$ -   |
| Proved properties      | -  | 19,075,000                                   |
| Exploration costs      | 3,453,603                                    | 713,220                                      |
| Development costs      | 14,368,323                                   | 16,687,432                                   |
| Subtotal               | <u>17,821,926</u>                            | <u>36,475,652</u>                            |
| Asset retirement costs | 856,302                                      | 60,973                                       |
| Total costs incurred   | <u>\$ 18,678,228</u>                         | <u>\$ 36,536,625</u>                         |

## Oil and Natural Gas Volumes, Prices and Operating Expense

The following table sets forth certain information regarding production volumes, average sales prices and average operating expense associated with our sale of oil and natural gas for the periods indicated.

|  | <u>For the Year Ended<br/>March 31, 2006</u> | <u>For the Year Ended<br/>March 31, 2005</u> |
|--|--|--|
| <b>Production:</b>   |  |  |
| Oil and condensate (Bbls)  | 242,522                                      | 68,755                                       |
| Natural gas liquids (Bbls)   | -  | -  |
| Natural gas (Mcf)  | -  | -  |
| Barrels of oil equivalent (BOE)  | 242,522                                      | 68,755                                       |
| <b>Sales(1)(2)</b>   |  |  |
| Oil and condensate (Bbls)  | 227,976                                      | 64,084                                       |
| Natural gas liquids (Bbls)   | -  | -  |
| Natural gas (Mcf)  | -  | -  |
| Barrels of oil equivalent (BOE)  | 227,976                                      | 64,084                                       |
| <b>Average Sales Price(2):</b>   |  |  |
| Oil and condensate (\$ per Bbl)  | \$ 26.13                                     | \$ 15.19                                     |
| Natural gas liquids (\$ per Bbl)   | \$ -   | \$ -   |
| Natural gas (\$ per Mcf)   | \$ -   | \$ -   |
| Barrels of Oil equivalent (\$ per BOE)   | \$ 26.13                                     | \$ 15.19                                     |
| <b>Average oil and natural gas operating expenses<br/>including production and ad valorem taxes<br/>(\$ per BOE)(1)(3)</b> |  |  |
|  | \$ 3.84                                      | \$ 6.34                                      |

(1) We use sales volume rather than production volume for calculation of per unit cost because not all volume produced is sold during the period. The related production costs were expensed only for the units sold, not produced based on a matching principle of accounting. Therefore, oil and gas operating expense per BOE was calculated by dividing oil and gas operating expenses for the year by the volume of oil sold during the year.

(2) During the years ended March 31, 2006 and 2005, we have not engaged in any hedging activities, including derivatives.

(3) Includes direct lifting costs (labor, repairs and maintenance, materials and supplies), expensed workover costs and the administrative costs of field production personnel, insurance and production and ad valorem taxes.

### Drilling Activity

The following table sets forth our drilling activity for the years ended March 31, 2006 and March 31, 2005. In the table, "Gross" refers to the total wells in which we have a working interest or back-in working interest after payout and "Net" refers to gross wells multiplied by our working interest therein.

|                     | <u>March 31, 2006</u> |            | <u>March 31, 2005</u> |            |
|---------------------|-----------------------|------------|-----------------------|------------|
|                     | <u>Gross</u>          | <u>Net</u> | <u>Gross</u>          | <u>Net</u> |
| <b>Exploratory:</b> |                       |            |                       |            |
| Productive          | -                     | -          | -                     | -          |
| Non-productive      | -                     | -          | -                     | -          |
| Total               | -                     | -          | -                     | -          |
| <b>Development:</b> |                       |            |                       |            |
| Productive          | 2                     | 2          | 4                     | 4          |
| Non-productive      | -                     | -          | -                     | -          |
| Total               | -                     | -          | -                     | -          |
| <b>Grand Total</b>  | <b>2</b>              | <b>2</b>   | <b>4</b>              | <b>4</b>   |

## Productive Wells

The following table sets forth the number of productive oil and natural gas wells in which we owned an interest as of March 31, 2006.

|             | Company-operated |     | Non-operated |     | Total |     |
|-------------|------------------|-----|--------------|-----|-------|-----|
|             | Gross            | Net | Gross        | Net | Gross | Net |
| Oil         | 6                | 6   | -            | -   | 6     | 6   |
| Natural Gas | -                | -   | -            | -   | -     | -   |
| Total       | 6                | 6   | -            | -   | 6     | 6   |

## Recent Developments

At year end 2006, our net proved reserves were 13.7 million barrels of oil. Reserves quoted in BOE were calculated using a conversion of 6 Mscf/bbl. Crude oil accounted for 100% of those proved reserves. Approximately 80% of proved total reserves were developed as of year-end 2006 and they were all located onshore in western Kazakhstan.

During the fiscal year ended March 31, 2006, we drilled to deepen the Aksaz-4 well and we continued testing and development works on the Dolinnoe-1, Dolinnoe-2, Dolinnoe-3, Emir-1 and Aksaz-1 wells.

We have commenced drilling in the Extended Territory. Our initial project was to increase the depth of an existing non-producing well, which is designated as the Kariman-1 well. The Kariman-1 well was cased to a depth of 1,661 meters and drilled to a total depth of 3,069 meters in 1967 by the Soviet government. The drilling was suspended at that depth because it was believed that the oil-bearing formations would not be found deeper than the lower Jurassic formations.

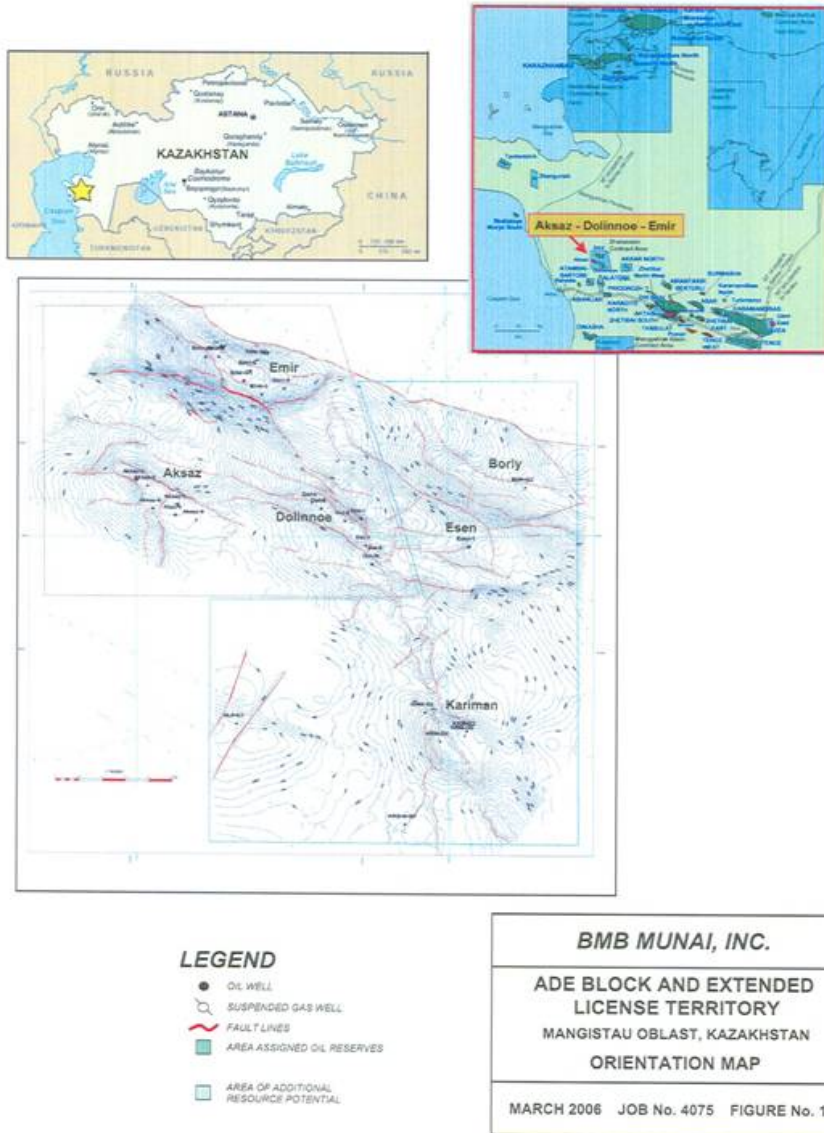
In February 2006 we re-entered the existing Kariman-1 wellbore. Drilling operations were conducted by Oil and Gas Exploration Cracow, Poland. At a depth of 1,660 meters the wellbore was sidetracked due to the poor technical conditions of the well. The sidetracked wellbore was drilled to a depth of 3,364 meters. At that depth the well started flowing oil and gas at such pressure that we were required to halt drilling and increase drilling fluid weight. Heavier drilling fluid caused loss circulation with no returns at 1,160-1,860 meters. We responded to the loss circulation and inflow zones by installing a cement bridge at a depth of 3,094 meters to separate the two zones. We then ran casing to the depth of 3,094 meters which completely isolated the loss circulation zone. The new wellbore was then reamed to a depth of 3,319 meters. Our next activity on the well will be to begin testing an estimated net pay zone of 38 meters in the Upper Triassic sandstone formations located at the depth of 3,167-3,275 meters.

In January 2006 we retained Great Wall Ltd., a Chinese drilling company to deliver two drilling rigs with derrick load capacity of 450 tons and 150 tons respectively. We plan to drill exploratory oil and gas wells in the Dolinnoe field and the Extended Territory using the services of Great Wall Ltd.

In December 2005 we were granted our first export quota from the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan which allowed us to begin exporting oil for sale in the world market in January 2006. We have also been granted export quotas in March, April, May and June 2006. We plan to continue to apply for monthly export quotas. Prior to January 2006, we were limited to selling our test production to the domestic market in Kazakhstan. The price of oil in the domestic market in Kazakhstan is materially lower than the price in the world market.

In March 2006 we received an interpretation report from the PGS-GIS Seismic Data Processing Center in Almaty, Kazakhstan, interpreting the 3D seismic study conducted by us on the Extended Territory. The interpretation confirmed the presence of four perspective structures in Triassic formations and three perspective structures in Jurassic formations in the Extended Territory. In addition, three new perspective structures in Jurassic formations were confirmed in the ADE Block. The results of the 3D seismic interpretation were evaluated by Chapman Petroleum Engineering Ltd., an independent petroleum engineering firm from Calgary, Canada, in connection with their preparation and issuance of a resource assessment report of the ADE Block and Extended Territory.

In April 2006 we executed an agreement with Ecotechnic Chemical AG to have Ecotechnic Chemical AG construct a natural gas utilization facility employing Ecotechnic Chemical's proprietary processing technology. Ecotechnic Chemical AG has completed approximately forty similar projects in the Russian Federation. The facility will be constructed on the exploration license territory. The project is scheduled to be completed by the end of the current calendar year. The processing facility will have initial capacity to process 3,532 mcf per day. The processing capacity can be enlarged at substantially lower incremental cost to meet the requirements of increased field production. Upon completion of construction, the gas utilization plant will be operated as an equal joint venture between us and Ecotechnic Chemical AG. The decision to commence the gas utilization project at the current time is a further step toward transitioning from the exploration stage to the production stage under our license agreement.



We currently own a 100% interest in a license to use subsurface mineral resources and a hydrocarbon exploration contract issued by the ROK in 1999 and 2000, respectively (collectively referred to herein as the “license” or the “contract”). The original contract granted its holder the right to engage in exploration and development activities in an area of approximately 200 square kilometers referred to as the ADE Block. The ADE Block is located onshore in Kazakhstan in the Mangistau Oblast, approximately 50 kilometers from the Kazakhstan city of Aktau, a seaport on the Caspian Sea. The ADE Block is comprised of three fields, the Aksaz, Dolinnoe and Emir fields. When initially granted, the exploration and development stage of the contract had a five year term. The time for exploration and development has since been extended to July 9, 2007, and we have the right to seek a two-year extension of our exploration contract. To move from exploration and development to commercial production, we must make application to the ROK before July 9, 2007; or we may apply to extend our exploration contract an additional two years with the application for a commercial production license to be made prior to the expiration of the two-year extension.

During the fiscal year ended March 31, 2005, our exploration contract was expanded to include an additional 260 kilometers of land adjacent to the ADE Block, which we refer to as the “Extended Territory.” The Extended Territory is governed by the terms of the original contract.

Under the terms of our contract we have the right to gather and sell all oil and natural gas we produce in test production until the expiration of our exploration contract, or its extension, with the revenue from such sales belonging to BMB. We intend to continue to apply for export quotas in the future because we realize significantly higher prices in the world market than the domestic market price for Kazakhstan. If we are not granted future export quotas, we will continue to sell our oil in the Kazakhstan domestic market.

To maintain our contract during the exploration and development stage we are required to meet minimum annual capital expenditures in the exploration and development of the ADE Block and the Extended Territory. The following table shows the minimum capital expenditures we are required to make during the 2006 calendar year and for the period from January 1, 2007 through July 9, 2007.

| <u>Year</u> | <u>Minimum Capital Expenditure</u> |
|-------------|------------------------------------|
| 2006        | \$6,000,000                        |
| 2007        | \$4,500,000                        |

If we apply for the two-year extension of our exploration contract, we will be required to make additional minimum capital expenditures during the extension period to maintain our rights under the exploration contract.

Under the terms of the contract, we must apply to the ROK for commercial production rights prior to the expiration of our contract, or its extension. The terms of our commercial production rights and royalty rates will be negotiated at the time we move to commercial production. During exploration and development stage, we have the right to produce and sell oil and natural gas at a royalty rate of 2%. When we move to commercial production, the negotiated royalty rates may vary depending on reserves and production rates. Royalty rates are established by the taxing authorities of the ROK and are based on production rates; the rate increases on a sliding scale. Current royalty rates range for 2% to 6%. Commercial production rights may also require that up to 20% of our oil production be sold to the Kazakhstan domestic market at considerably lower prices than we receive in the world export markets, as discussed above.

Under our contract, we have the exclusive right to apply for and negotiate a commercial production contract. The government is required to negotiate the terms of these rights in good faith in accordance with the Law of Petroleum of Kazakhstan. We have not yet applied for commercial production rights because we enjoy certain economic advantages during exploration and development as discussed herein.

During the fiscal year ended March 31, 2006 we drilled one new well in the Aksaz field. This well was successfully completed and is in testing, test production or additional workover.

### **Title to Properties**

We hold an exploration contract from the Republic of Kazakhstan that grants us the right for exploration and test production of hydrocarbons on the ADE Block and the Extended Territory. Our rights to these properties will terminate in July 2007 unless we are able to negotiate an extension of our current exploration contract or we are granted a commercial production contract.

### **Marketing**

Currently all of our test production is being sold to one client. We anticipate that once we move to commercial production we will market our production to third parties consistent with industry practices.

There are a variety of factors which affect the market for oil and natural gas, including the extent of domestic production and imports of oil and natural gas, the availability, proximity and capacity of natural gas pipelines and other transportation facilities, demand for oil and natural gas, the marketing of competitive fuels and the effects of state and federal regulations on oil and natural gas productions and sales.

### **Sales to Major Customers**

We are now exporting all of our test production for sell in the world market. Currently, all of our production is being sold to one client, Euro-Asian Oil AG. Our crude oil is transported via the Aktau sea port to world markets. Sales prices at the port locations are based on the average quoted Brent crude oil price from Platt's Crude Oil Marketwire for the three days following the bill of lading date less discount of \$14.15 for transportation expenses, freight charges and other expenses.



In the exploration, development and production business, production is normally sold to relatively few customers. Our customers are concentrated in the oil and gas industry, and revenue can be materially affected by current economic conditions and the price of certain commodities such as natural gas and crude oil the cost of which is passed through to the customer. However, based on the current demand for natural gas and crude oil and the fact that alternate purchasers are readily available, we believe that the loss of Euro-Asian Oil AG would not have a long-term material adverse effect on our operations.

## **Competition**

Hydrocarbons exploration is highly competitive. Competition in Kazakhstan and Central Asia includes other junior hydrocarbons exploration companies, mid-size producers and major exploration and production companies. We compete for additional exploration and production properties with these companies who in many cases may have greater financial resources and larger technical staff than we do.

We believe we have an advantage over our competitors: our executive management and our board of directors have domestic and international experience and have been working in Kazakhstan and Russia for up to 30 years. They have developed relationships with the Kazakhstan government, its departments and ministries at many levels. We also employ experienced national and foreign specialists at senior levels in our operating subsidiary, Emir Oil, LLP.

We face significant competition for capital from other exploration and production companies and industry sectors. At times, other industry sectors may be more in favor with investors, limiting our ability to obtain necessary capital.

## **Government Regulation**

Our operations are subject to various levels of government controls and regulations at various levels in both the United States and in Kazakhstan. We attempt to comply with all legal requirements in the conduct of our operations and employ business practices that we consider to be prudent under the circumstances in which we operate. It is not possible for us to separately calculate the costs of compliance with environmental and other governmental regulations as such costs are an integral part of our operations.

In Kazakhstan, legislation affecting the oil and gas industry is under constant review for amendment or expansion. Pursuant to such legislation, various governmental departments and agencies have issued extensive rules and regulations which affect the oil and gas industry, some of which carry substantial penalties for failure to comply. These laws and regulations can have a significant impact on the industry by increasing the cost of doing business and, consequentially, can adversely affect our profitability. Inasmuch as new legislation affecting the industry is common place and existing laws and regulations are frequently amended or reinterpreted, we are unable to predict the future cost or impact of complying with such laws and regulations.

## Risks Relating to the Oil and Natural Gas Industry

*A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition, cash flow, liquidity or results of operations and ability to meet our capital expenditure obligations and financial commitments and implement our business strategy.*

Our business is heavily dependent upon the prices of, and demand for, oil and natural gas production and the level of such production will be subject to wide fluctuations and depend on numerous factors beyond our control, including the following:

- the domestic and foreign supply of oil and natural gas;
- the price and quantity of imports of crude oil and natural gas;
- political conditions and events in other oil-producing and natural gas-producing countries, including embargoes, continued hostilities in the Middle East, Iran, Nigeria and other sustained military campaigns, and acts of terrorism or sabotage;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- domestic government regulation, legislation and policies;
- the level of global oil and natural gas inventories;
- weather conditions;
- technological advances affecting energy consumption;
- the price availability of alternative fuels; and
- overall economic conditions.

Any continued and extended decline in the price of crude oil or natural gas will adversely affect:

- our revenues, profitability and cash flow from operations;
- the value of our proved oil and natural gas reserves;
- the economic viability of certain of our drilling prospects;
- our borrowing capacity; and
- our ability to obtain additional capital.

In December 2005 we were granted our first export quota from the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (“MEMR”) which allowed us to begin exporting oil for sale in the world market in January 2006. We have also been granted export quotas in March, April, May and June 2006. Prior to January 2006, we were limited to selling our test production to the domestic market in Kazakhstan. The price of oil in the domestic market in Kazakhstan is materially lower than the price in the world market. There is no guarantee that the Republic of Kazakhstan will continue to grant us export quotas in the future. In the event we are not granted an export quota in the future, we will be limited to selling our production to the domestic Kazakhstan market, which likely will result in us realizing lower revenue per barrel of oil sold than we would realize in the world market.

We have not entered into crude oil and natural gas price hedging arrangements on any of our anticipated sales. However, we may in the future enter into such arrangements in order to reduce our exposure to price risks. Such arrangements may limit our ability to benefit from increases in oil and natural gas prices.

*Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.*

The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of reserves shown in this prospectus.

In order to prepare our estimates, we must project production rates and timing of development expenditures. We must also analyze available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. The process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of oil and natural gas reserves are inherently imprecise.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of reserves shown in this report. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

You should not assume that the present value of future net revenues from our proved reserves referred to in this report is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we generally base the estimated discounted future net cash flows from our proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those used in the present value estimate. If future values decline or costs increase, it could have a negative impact on our ability to finance operations; individual properties could cease being commercially viable; affecting our decision to continue operations on producing properties or to attempt to develop properties. All of these factors would have a negative impact on earnings and net income, and most likely the trading price of our securities.

*Twenty percent of our proven properties are undeveloped; therefore the risk associated with our success is greater than would be the case if all of our properties were categorized as "proved developed producing."*

Because a portion of our proved reserves (approximately 20%) are "Proved Undeveloped" additional capital for the drilling and completion of an additional well will be required before these reserves become productive. Further, because of the inherent uncertainties associated with drilling for oil and gas, this well may never be developed to the extent that it develops into positive cash flow. Even if we are successful in our development efforts, it could take several years to achieve positive cash flow from our proved undeveloped reserves.

*We will be unable to produce up to 94% of our proved reserves if we are not able to extend our current contract or obtain a new contract from the Republic of Kazakhstan, which would likely require us to terminate our operations.*

Under our current contract for exploration of hydrocarbons, we have the right to produce oil and gas only until July 2007, yet 94% of our proved reserves are scheduled to be produced after July 2007. We have the ability to extend our current exploration contract to July 2009. We also have the exclusive right to negotiate a commercial production contract as per the terms of our exploration contract. If, however, we are unable to obtain a commercial production contract prior to the expiration of our exploration contract, we will lose our right to produce the reserves on our current properties. If we are unable to produce those reserves, we will be unable to realize revenues and earnings and to fund operations and we would most likely be unable to continue as a going concern.

*Prospects that we decide to drill may not yield oil or natural gas in commercially viable quantities or quantities sufficient to meet our targeted rate of return.*

A “prospect” is a property which, based on available seismic and geological data, we believe shows potential oil or natural gas. Our prospects are in various stages of evaluation and interpretation. There is no way to predict in advance of drilling and completion costs whether a prospect will be economically viable. Even with seismic data and other technologies and the study of producing fields in the same area, we cannot know conclusively prior to drilling whether oil or natural gas will be present or, if present, will be present in commercial quantities. The analysis that we perform using data from other wells, more fully explored prospects and /or producing fields may not be useful in predicting the characteristics and potential reserves associated with our drilling prospects. If we drill additional unsuccessful wells, our drilling success rate may decline and we may not achieve our targeted rate of return.

*We may incur substantial losses and be subject to substantial liability claims as a result of our oil and natural gas operations.*

We are not insured against all risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect our business, financial condition or results of operations. Our oil and natural gas exploration and production activities are subject to all of the operating risks associated with drilling for and producing oil and natural gas, including the possibility of:

- environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling and service tools and casing collapse;
- fires and explosions;
- personal injuries and death; and
- natural disasters.

Any of these risks could adversely affect our ability to conduct operations or result in substantial losses. We may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs that is not fully covered by insurance, it could adversely affect us.

*We are subject to complex laws that can affect the cost, manner or feasibility of doing business.*

Exploration, development, production and sale of oil and natural gas are subject to extensive federal, state, local and international regulation. We may be required to make large expenditures to comply with governmental regulations. Matters subject to regulation include:

- discharge permits for drilling operations;
- drilling bonds;
- reports concerning operations;
- the spacing of wells;
- unitization and pooling of properties; and
- taxation.

Under these laws, we could be liable for personal injuries, property damage and other damages. Failure to comply with these laws may also result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties. Moreover, these laws could change in ways that substantially increase our costs. Any such liabilities, penalties, suspensions, terminations or regulatory changes could materially adversely affect our financial condition and results of operations.

*Our operations may incur substantial liabilities to comply with the environmental laws and regulations.*

Our oil and natural gas operations are subject to stringent federal, state and local laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of a permit before drilling commences, restrict the types, quantities and concentration of substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas, and impose substantial liabilities for pollution resulting from our operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, imposition of investigatory or remedial obligations or even injunctive relief. Changes in environmental laws and regulations occur frequently; any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to maintain compliance, and may otherwise have a material adverse effect on our results of operations, competitive position or financial condition as well as on the industry in general. Under these environmental laws and regulations, we could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release or whether our operations were standard in the industry at the time they were performed.

*Unless we replace our oil and natural gas reserves, our reserves and future production will decline, which would adversely affect our cash flows and income.*

Unless we conduct successful development, exploration and exploitation activities or acquire properties containing proved reserves, our proved reserves will decline as those reserves are produced. Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Our future oil and natural gas reserves and production, and, therefore our cash flow and income, are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves. If we are unable to develop, exploit, find or acquire additional reserves to replace our current and future production, our cash flow and income will decline as production declines, until our existing properties would be incapable of sustaining commercial production.

*If we do not satisfy our commitments to the government of Kazakhstan while we are engaged in exploration and development activities we could lose our rights to the ADE Block and the Extended Territory.*

We have committed to the government of Kazakhstan to make various capital investments and to develop the ADE Block and the Extended Territory in accordance with specific requirements during exploration and development. Additionally, to undertake commercial production, we will need to apply for and be granted commercial production rights. The requirements of our current license may be inconsistent with the terms of any new licenses we are issued. Additionally, we may not be able to satisfy all commitments in the future. If we fail to satisfy these commitments our contract may be cancelled. The cancellation of our contract could have a material adverse effect on our business, results of operations and financial condition. Although we would seek waivers of any breaches or seek to renegotiate the terms of our commitments, we cannot assure you that we would be successful in doing so.

*Our activities, and correspondingly, our ability to generate revenue to support operations, could be adversely affected because of inadequate infrastructure in the region where our properties are located.*

Our exploration and development activities could suffer due to inadequate infrastructure in the region. We are working to improve the infrastructure on our properties. Any problem or adverse change affecting our operational infrastructure, or infrastructure provided by third parties, could have a material adverse effect on our financial condition and results of operations. Similarly, if we are unsuccessful in developing the infrastructure on our properties it could have a material adverse effect on our financial conditions and results of operations.

*The unavailability or high cost of drilling rigs, equipment, supplies, personnel and oil field services could adversely affect our ability to execute on a timely basis our exploration and development plans within our budget.*

Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or adversely affect our development and exploration operations. As the price of oil and natural gas increases, the demand for production equipment and personnel will likely also increase, potentially resulting, at least in the near-term, in shortages of equipment and personnel. In addition, larger producers may be able to secure access to such equipment by offering drilling companies more lucrative terms. If we are unable to acquire access to such resources, or can obtain access only at higher prices, not only would this potentially delay our ability to convert our reserves into cash flow, but this could also significantly increase the cost of producing those reserves, thereby having a negative impact on anticipated net income.

*The unavailability or high price of transportation systems could adversely affect our ability to deliver our production to oil and natural gas markets on terms that would allow us to operate profitably, or at all.*

Because of the location of our properties, the crude oil we produce must be transported by truck or by rail. In the future it will likely also be transported by pipelines. These railways and pipelines are operated by state-owned entities or other third parties, and there can be no assurance that these transportation systems will always be functioning and available, or that the transportation costs will remain at acceptable levels. In addition, any increase in the cost of transportation or reduction in its availability to us could have a material adverse effect on our results of operations. There is no assurance that we will be able to procure sufficient transportation capacity on economical terms, if at all.

*Competition in the oil and natural gas industry is intense, which may adversely affect our ability to compete.*

We operate in a highly competitive environment for acquiring properties, marketing oil and natural gas and securing trained personnel. Many of our competitors possess and employ financial, technical and personnel resources which are substantially greater than ours, this can be particularly important in the areas in which we operate. Those companies may be able both to pay more for productive oil and natural gas properties and exploratory prospects and to evaluate, bid for and purchase a greater number of properties and prospects than our financial or personnel resources permit. Our ability to acquire additional prospects and to find and develop reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. There is substantial competition for capital available for investment in the oil and natural gas industry. We may not be able to compete successfully in the future in acquiring prospective reserves, developing reserves, marketing hydrocarbons, attracting and retaining quality personnel or raising additional capital.

## Risks Relating to Our Business

*The loss of senior management and key personnel could adversely affect us.*

Our success is dependent on the performance of our senior management and key technical personnel each of whom has extensive experience in the oil and gas industry. The loss of such individuals, in particular, Boris Cherdabayev, our CEO and Chairman of our Board of Directors, or Tolesh Tolmakov, the General Director of Emir Oil, our wholly-owned subsidiary, could have an adverse effect on our business. We do not have employment agreements in place with our senior management or key employees. We do not currently carry key man insurance for any of our senior management or key employees, nor do we anticipate obtaining key man insurance in the foreseeable future.

*If you purchase shares of our stock, your investment will be subject to the same risks inherent in international operations, including, but not limited to, adverse governmental actions, political risks, and expropriation of assets, loss of revenues and the risk of civil unrest or war.*

We believe that the present policies of the government of the Republic of Kazakhstan are favorable to foreign investment and to exploration and production and we are not aware of any impending changes. While there is a certain amount of bureaucratic “red tape” we have significant experience working in Kazakhstan, and good relationships with government agencies at many levels.

We, however, remain subject to all the risks inherent in international operations, including adverse governmental actions, uncertain legal and political systems, and expropriation of assets, loss of revenues and the risk of civil unrest or war. Our primary oil and gas properties are located in Kazakhstan, which until 1990 was part of the Soviet Union. Kazakhstan retains many of the laws and customs of the former Soviet Union, but has and is continuing to develop its own legal, regulatory and financial systems. As the political and regulatory environment changes, we may face uncertainty about the interpretation of our agreements; in the event of dispute, we may have limited recourse within the legal and political system.

If we are successful in establishing commercially producible reserves on our properties, an application will be made for a commercial production contract. We have the exclusive right to negotiate this contract for the ADE Block and Extended Territory, and the government is required to conduct these negotiations under the “Law of Petroleum.” Such contracts are customarily awarded upon determination that the field is capable of commercial rates of production and that we have complied with the other terms of our license and exploration contract. The terms of the commercial production contract will establish the royalty and other payments due to the government in connection with commercial production. At the time the commercial production contract is issued, we will be required to begin repaying the government its historical investment costs of exploration and development of the ADE Block and the Extended Territory. Our obligation associated with the ADE Block is approximately \$6 million. Our obligation associated with the Extended Territory has not yet been determined and is currently being negotiated. If satisfactory terms for commercial production rights cannot be negotiated, it could have a material adverse effect on our financial position.



## **Employees**

As of May 15, 2006 we had 199 full-time employees. We believe that our relationships with our employees are good. None of our employees are covered by a collective bargaining agreement. From time to time we utilize the services of independent consultants and contractors to perform various professional services. Field and on-site production operation services, such as pumping, maintenance, dispatching, inspection and testing are generally provided by independent contractors.

## **Executive Offices**

Our principal executive and corporate offices are located in an office building located at 202 Dostyk Avenue, in Almaty, Kazakhstan. We lease this space and believe it is sufficient to meet our needs for the foreseeable future.

We also maintain administrative office in Salt Lake City, Utah. The address is 324 South 400 West, Suit 225, Salt Lake City, Utah 84101, USA.

## **Reports to Security holders**

We file Annual Reports on Form 10-KSB, Quarterly Reports on Form 10-QSB, Current Reports on Form 8-K and other items with the Securities and Exchange Commission (SEC). We provide free access to all of these SEC filings, as soon as reasonably practicable after filing, on our Internet web site located at [www.bmbmunai.com](http://www.bmbmunai.com). In addition, the public may read and copy any documents we file with the SEC at the SEC's Public Reference Room at 100 F Street N.E. , Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains its Internet site [www.sec.gov](http://www.sec.gov), which contains reports, proxy and information statements and other information regarding issuers like BMB Munai.

## **Item 3. 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, current or 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 Toleush 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 documents to plaintiffs relating to the issues raised in the motion. Following completion of document production, the motion has been renewed.

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.

In November 2005 we learned that the Company had been added as a defendant in a lawsuit filed by Bank CenterCredit against Optima Systems, LLP, KazOvoshProm Company, LLP, Intexi LLP and a number of other parties. The lawsuit was filed in the Special Interregional Economic Court of Almaty, Kazakhstan. Under Kazakhstani law, it is illegal for a party to purchase stock of a bank with borrowed funds. The lawsuit alleges that Optima Systems KazOvoshProm Company and Intexi illegally shares of Bank CenterCredit in open market transactions in the Kazakhstan Stock Market from a number of parties, including BMB Munai, with borrowed funds.

On June 13, 2006 we learned that the Special Interregional Economic Court of Almaty, Kazakhstan ruled that we had no liability in this lawsuit and has dismissed us as a defendant in the lawsuit.

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 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders during the quarter ended March 31, 2006. On April 18, 2006, we held a special meeting of our stockholder. The total number of shares entitled to vote at the meeting was 42,198,690. The number of shares represented at the special meeting of stockholders, present or by proxy was 23,320,834. At the meeting the shareholders were asked to vote on the following matter:

- 1) To ratify the adoption of a corporate policy governing future acquisitions of additional oil and gas licenses in exchange for shares of Company common stock; and
- 2) To amend our Articles of Incorporation to increase the authorized capital stock of the Company to 500,000,000 common shares.

23,320,584 shares voted to ratify the acquisitions policy and due diligence protocol and 250 shares voted against ratification of the acquisitions policy and due diligence protocol. No shares abstained.

22,968,520 shares voted to approve an amendment to our Articles of Incorporation to increase our authorized common stock to 500,000,000 and 352,313 shares voted against the amendment to our Articles of Incorporation and one share abstained from voting. On June 21, 2006 we filed an amendment to our Articles of Incorporation increasing our authorized common stock to 500,000,000 shares.

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

## **PART II**

#### **Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities**

Our shares are currently traded on the Over-the-Counter Bulletin Board (“OTCBB”) under the symbol BMBM. As of June 22, 2006, we had approximately 620 shareholders of record holding 43,740,657 shares of our common stock. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies. We believe that, in addition, there are beneficial owners of our common stock whose shares are held in street name and, consequently, we are unable to determine the actual number of beneficial holders of our common stock.

Of the issued and outstanding common stock, approximately 9,553,445 are free trading, the balance are “restricted securities” as that term is defined in Rule 144 promulgated by the Securities and Exchange Commission.

The published high and low bid quotations from April 1, 2004 through March 31, 2006, were furnished to us by Pink Sheets, LLC, are included in the chart below. These quotations represent prices between dealers and do not include retail markup, markdown or commissions and may not represent actual transactions.

|                                   | <u>High</u> | <u>Low</u> |
|-----------------------------------|-------------|------------|
| Fiscal year ending March 31, 2006 |             |            |
| First Quarter                     | \$5.30      | \$4.01     |
| Second Quarter                    | \$8.15      | \$4.65     |
| Third Quarter                     | \$7.50      | \$6.00     |
| Fourth Quarter                    | \$9.70      | \$6.70     |
| Fiscal year ending March 31, 2005 |             |            |
| First Quarter                     | \$5.75      | \$3.80     |
| Second Quarter                    | 7.65        | 3.00       |
| Third Quarter                     | 7.05        | 3.00       |
| Fourth Quarter                    | 5.40        | 4.60       |

### Cash Dividends

During the fiscal year ended March 31, 2006, the Company did not pay, nor declare, any dividends. The Company's ability to pay dividends is subject to limitations imposed by Nevada law. Under Nevada law, dividends may be paid to the extent that the corporation's assets exceed its liabilities and it is able to pay its debts as they become due in the usual course of business. The Board of Directors does not, however, anticipate paying any dividends in the foreseeable future; it intends to retain the earnings that could be distributed, if any, for the operations, expansion and development of its business.

### Securities for Issuance Under Equity Compensation Plans

As of June 22, 2006, shares of our common stock were subject to issuance upon the exercise of outstanding options or warrants as set forth below.

| Plan category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in columns (a)) |
|--|---|---|--|
|  | (a)   | (b)   | (c)  |
| Equity compensation plans approved by security holders     | 1,173,583   | \$5.32  | 2,805,000  |
| Equity compensation plans not approved by security holders | 142,857   | \$3.50  | -0-  |
| <b>Total</b>   | <b>1,356,440</b>  | <b>\$5.12</b>   | <b>2,805,000</b>   |

On November 19, 2003 we granted an option to Credifinance Securities Limited for services rendered by Credifinance as our agent in connection with private placements made by us in November 2003. Georges Benarroch, a Company director is also the CEO of Credifinance and may be deemed to be a related party. The option grants Credifinance the right to purchase up to 142,857 shares of our common stock at an exercise price of \$3.50 per share. The option expires on November 26, 2008. The option provides for adjustments to the number of shares and/or the price per share to protect the holder against dilution and in the event of mergers, reorganizations and similar events. The option also requires that in the event we determine to make a registered public offering during the term of the option, we shall use our best efforts to include the common shares underlying the options in the registration statement.

In October 2004 we agreed to grant stock options under our 2004 Stock Incentive Plan to Gary Lerner, our former corporate secretary, to purchase 60,000 shares of our common stock. The options have an exercise price of \$4.00 per share and expire in October 2009. In April 2006, Mr. Lerner exercised options to purchase 7,200 shares of our common stock.

On July 18, 2005 our Board of Directors approved stock option grants and restricted stock awards under our 2004 Stock Incentive Plan subject to acceptance of those grants by the parties to whom they were granted. The total number of options and restricted stock grants was 820,783 and 469,217, respectively. The options are exercisable at a price of \$4.75, the closing price of the Company's common stock on the OTCBB on July 18, 2005. The options will expire five years from the grant date. Of the restricted stock grants, 389,217 vested immediately. The remaining shares will vest to the three individuals to whom they were granted in equal amounts upon the one year, two year and three year anniversaries of their employment with the Company. Among the parties receiving stock options and restricted stock grants were the following executive officers and directors:

| <b>Name</b>         | <b>Positions with Company</b> | <b>Options Granted</b> | <b>Restricted Stock Granted</b> |
|---------------------|-------------------------------|------------------------|---------------------------------|
| Boris Cherdabayev   | CEO and Director              | 410,256                | 189,744                         |
| Anuar Kulmagambetov | Former CFO                    | 232,632                | 107,368                         |
| Georges Benarroch   | Director                      | 68,421                 | 31,579                          |
| Valery Tolkachev    | Director                      | 68,421                 | 31,579                          |

In January 2006, we entered into a separation agreement with our former CFO, Anuar Kulmagambetov, to issue Mr. Kulmagambetov 50,000 restricted common shares and an option to purchase up to 100,000 shares of restricted common stock of the Company at \$7.40 per share expiring five years from the date of grant.

On June 20, 2006 our Board of Directors approved stock option grants and restricted stock awards to our officers and directors and certain employees and consultants of the Company under our 2004 Stock Incentive Plan. The total number of options and restricted stock grants was 200,000 and 495,000 respectively. The options are exercisable at a price of \$7.00 per share, which was the closing price of our common stock on the OTCBB on June 20, 2006. The restricted stock grants were also valued at \$7.00 per share. The options will expire three years from the grant date. All of the options and restricted stock grants vested immediately upon grant. Among the parties receiving restricted stock grants were the following executive officers and directors:

| <u>Name</u>       | <u>Positions with Company</u> | <u>Options Granted</u> | <u>Restricted Stock Granted</u> |
|-------------------|-------------------------------|------------------------|---------------------------------|
| Boris Cherdabayev | CEO and Director              | 150,000                | 80,000                          |
| Askar Tashtitov   | President                     | -                      | 40,000                          |
| Sanat Kasymov     | CFO                           | -                      | 40,000                          |
| Gamal Kulumbetov  | COO                           | -                      | 40,000                          |
| Georges Benarroch | Director                      | -                      | 10,000                          |
| Troy Nilson       | Director                      | -                      | 10,000                          |
| Stephen Smoot     | Director                      | -                      | 10,000                          |
| Valery Tolkachev  | Director                      | 50,000                 | 40,000                          |

#### **Recent Sales of Unregistered Securities.**

During and subsequent to the quarter ended March 31, 2006 the following equity securities, which were not registered under the Securities Act of 1933, were issued.

During January 2006, we entered into a separation agreement with our former CFO, Anuar Kulmagambetov, to issue Mr. Kulmagambetov 50,000 restricted common shares of the Company; and an option to purchase up to 100,000 shares of the Company's restricted common stock at \$7.40 per share expiring five years from the date of grant. Mr. Kulmagambetov's resignation was not the result of any disagreement with the Company on any matter relating to our operations, policies or practices.

Between January and March 22, 2006, Credifinance Capital Corp., exercised warrants to purchase 148,980 common shares for \$4.00 per share for an aggregate purchase price of \$595,560. The shares were issued without registration pursuant to Regulation S of the Securities Act Rules.

In April 2006, Gary Lerner, our former corporate secretary, exercised options to purchase 7,200 shares of our common stock at a price of \$4.00 per share. The shares were issued without registration under the Securities Act of 1933 in reliance upon Section 4(2) of the Securities Act of 1933.

On April 10, 2006, Credifinance Capital Corp., a related company through a common director, exercised warrants granted in April 2005 to purchase 50,100 shares of our restricted common stock for \$250,500. The shares were issued without registration pursuant to Regulation S of the Securities Act Rules.

On May 12, 2006, Aton International, Ltd., exercised warrants granted in December 2005 to purchase 916,667 restricted common shares for \$6.00 per shares for an aggregate purchase price of \$5,500,002. The shares were issued without registration pursuant to Regulation S of the rules and regulations promulgated by the Securities and Exchange Commission under the Securities Act of 1933.

On June 20, 2006, our Board of Directors approved stock option grants and restricted stock awards to our officer and directors and certain employees and consultants of the Company under our 2004 Stock Incentive Plan. The total number of options and restricted stock grants was 200,000 and 495,000 respectively. The options are exercisable at a price of \$7.00 per share, which was the closing price of our common stock on the OTCBB on June 20, 2006. The restricted stock grants were also valued at \$7.00 per share. The options will expire three years from the grant date. All of the options and restricted stock grants vested immediately upon grant. Among the parties receiving restricted stock grants were the following executive officers and directors:

| <u>Name</u>       | <u>Positions with Company</u> | <u>Options Granted</u> | <u>Restricted Stock Granted</u> |
|-------------------|-------------------------------|------------------------|---------------------------------|
| Boris Cherdabayev | CEO and Director              | 150,000                | 80,000                          |
| Askar Tashtitov   | President                     | -                      | 40,000                          |
| Sanat Kasymov     | CFO                           | -                      | 40,000                          |
| Gamal Kulumbetov  | COO                           | -                      | 40,000                          |
| Georges Benarroch | Director                      | -                      | 10,000                          |
| Troy Nilson       | Director                      | -                      | 10,000                          |
| Stephen Smoot     | Director                      | -                      | 10,000                          |
| Valery Tolkachev  | Director                      | 50,000                 | 40,000                          |

Grants were made to a total of 16 people, eleven of whom are non-U.S. persons. The option and restricted stock grants were made without registration pursuant to Regulation S of the Securities Act Rules and Section 4(2) under the Securities Act of 1933.

#### **Repurchases by Small Business Issuer**

During the quarter ended March 31, 2006, we did not repurchase any shares of our Company.

#### **Item 6. Management's Discussion and Analysis of Results of Operations**

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the fiscal years ended March 31, 2006 and 2005. This discussion should be read in conjunction with the consolidated financial statements and footnotes to the consolidated financial statements included in this registration statement.

## Forward-Looking Statements

Certain of the statements contained herein as well as 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, generation of new prospects, successful acquisition of a commercial production license, review of outside generated prospects and acquisitions, additional reserves and reserve increases, management of our asset base, expansion and improvement of capabilities, integration of new technology into operations, availability of 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 prices, expectations of timing, the outcome of legal proceedings, satisfaction of contingencies, the impact of any change in accounting policies on our 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 natural gas and oil, results for 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.



## Results of Operations

This section includes a discussion of our results of operations for the fiscal years ended March 31, 2006 and 2005. The following table sets forth selected operating data for the fiscal years indicated:

|  | <u>For the year ended<br/>March 31, 2006</u> | <u>For the year ended<br/>March 31, 2005</u> |
|--|--|--|
| Revenues:  |  |  |
| Oil and gas sales  | \$ 5,956,731                                 | \$ 973,646                                   |
| Expenses:  |  |  |
| Oil and gas operating <sup>(1)</sup>                       | 875,319                                      | 406,361                                      |
| Depletion  | 1,167,235                                    | 229,406                                      |
| Depreciation and amortization                              | 133,148                                      | 66,451                                       |
| Accretion  | 5,602  | -  |
| General and administrative                                 | 9,724,597                                    | 4,060,962                                    |
| Net Production Data:                                       |  |  |
| Oil (Bbls)   | 242,522                                      | 68,755                                       |
| Natural gas (Mcf)  | -  | -  |
| Barrels of Oil equivalent (BOE)                            | 242,522                                      | 68,755                                       |
| Net Sales Data <sup>(1)</sup> :                            |  |  |
| Oil (per Bbl)  | 227,976                                      | 64,084                                       |
| Natural gas (Mcf)  | -  | -  |
| Barrels of Oil equivalent                                  | 227,976                                      | 64,084                                       |
| Average Sales Price:                                       |  |  |
| Oil (per Bbl)  | 26.13  | 15.19  |
| Natural gas (per Mcf)                                      | -  | -  |
| Equivalent price (per BOE)                                 | 26.13  | 15.19  |
| Expenses (\$ per BOE) <sup>(1)</sup> :                     |  |  |
| Oil and gas operating <sup>(2)</sup>                       | 3.84   | 6.34   |
| Depreciation, depletion and<br>amortization <sup>(3)</sup> | 5.12   | 3.58   |

(1) We use sales volume rather than production volume for calculation of per unit cost because not all volume produced is sold during the period. The related production costs were expensed only for the units sold, not produced, based on a matching principle of accounting. Therefore, oil and gas operating expense per BOE was calculated by dividing oil and gas operating expenses for the year by the volume of oil sold during the year.

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

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

*Year ended March 31, 2006 compared to the year ended March 31, 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 year ended March 31, 2006 and the year ended March 31, 2005.

|   | For the Fiscal<br>Year ended<br>March 31, 2006 | For the Fiscal<br>Year ended<br>March 31, 2005 | Fiscal Year ended<br>March 31, 2006 compared to<br>the Fiscal Year ended<br>March 31, 2005 |                             |
|---|--|--|--|-----------------------------|
|   |  |  | \$<br>Increase<br>(Decrease)   | %<br>Increase<br>(Decrease) |
| <b>Production volumes:</b>                |  |  |  |                             |
| Natural gas (Mcf)                         | -  | -  | -  | -                           |
| Natural gas liquids (Bbls)                | -  | -  | -  | -                           |
| Oil and condensate (Bbls)                 | 242,522  | 68,755   | 173,767  | 253%                        |
| Barrels of Oil equivalent (BOE)           | 242,522  | 68,755   | 173,767  | 253%                        |
| <b>Average Sales Price(1)</b>             |  |  |  |                             |
| Natural gas (\$ per Mcf)                  | \$ -   | \$ -   | \$ -   | -                           |
| Natural gas liquids (\$ per Bbl)          | \$ -   | \$ -   | \$ -   | -                           |
| Oil and condensate (\$ per Bbl)           | \$ 26.13                                       | \$ 15.19                                       | \$ 10.94   | 72%                         |
| Barrels of Oil equivalent<br>(\$ per BOE) | \$ 26.13                                       | \$ 15.19                                       | \$ 10.94   | 72%                         |
| <b>Operating Revenue:</b>                 |  |  |  |                             |
| Natural gas                               | \$ -   | \$ -   | \$ -   | -                           |
| Natural gas liquids                       | \$ -   | \$ -   | \$ -   | -                           |
| Oil and condensate                        | \$ 5,956,731                                   | \$ 973,646                                     | \$ 4,983,085   | 512%                        |
| Gain on hedging and derivatives(2)        | \$ -   | \$ -   | \$ -   | -                           |

(1) At times, we may produce more barrels than we sell in a given period. The average sales price is calculated based on the average sales price per barrel sold, not per barrel produced.

(2) We did not engage in hedging transactions, including derivatives during the fiscal years ended March 31, 2006 and 2005.

*Revenues.* We generate revenue under our contract from the sale of oil recovered during test production. During the year ended March 31, 2006, we realized revenue from oil sales of \$5,956,731 compared to \$973,646 during the year ended March 31, 2005. This increase in revenues is primarily the result of several factors. During the current fiscal year we performed workover of re-entered wells and drilled one additional well, which led to increased test production. We performed works to perforate a productive stratum, which led to a significant flow of oil at the Dolinnoe-3 well. As a result, during the fiscal year ended March 31, 2006 the Dolinnoe-3 well accounted for 63% of our total oil production. Additionally, the price per barrel we received for oil sold increased 72% during the fiscal year ended March 31, 2006 compared to the fiscal year ended March 31, 2005. Throughout the 2006 fiscal year domestic market price increased significantly, consistent with world market prices. Additionally during fourth fiscal quarter of our 2006 fiscal year we started exporting our oil to the world markets and realized the world market price for those sales, which is considerably higher than the domestic market price in Kazakhstan. We anticipate production will continue to increase in upcoming years. We also hope to continue to be granted export quotas, which would allow us to realize world market prices. This would also lead to increased revenue from oil sales compared to our prior fiscal years because of the increased in price per barrel we would realize from sales in the world market.

Our revenue is sensitive to changes in prices received for our products. Our production is sold at the prevailing market price in Kazakhstan and world markets, 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. 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 year ended March 31, 2006 and 2005:

|                                      | <b>For the year ended<br/>March 31, 2006</b> | <b>For the year ended<br/>March 31, 2005</b> |
|--------------------------------------|--|--|
| Expenses:                            |  |  |
| Oil and gas operating <sup>(1)</sup> | \$ 875,319                                   | \$ 406,361                                   |
| General and administrative           | 9,724,597                                    | 4,060,962                                    |
| Depletion                            | 1,167,235                                    | 229,406                                      |
| Accretion expenses                   | 5,602  | -  |
| Amortization and depreciation        | 133,148                                      | 66,451                                       |
| <b>Total</b>                         | <b>\$ 11,905,901</b>                         | <b>\$ 4,763,180</b>                          |
| Expenses (\$ per BOE):               |  |  |
| Oil and gas operating <sup>(1)</sup> | 3.84   | 6.34   |
| Depletion <sup>(2)</sup>             | 5.12   | 3.58   |

(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 fiscal year ended March 31, 2006, we incurred \$875,319 in oil and gas operating expenses compared to \$406,361 during the year ended March 31, 2005. Oil and gas operating expenses increased due to increased production. During the year ended March 31, 2006 production volume increased by 173,767 barrels or 253% compared to the year ended March 31, 2005. Such increase led to hiring more production and maintenance personnel and a corresponding payroll increase during the year ended March 31, 2006 of 34% compared to the year ended March 31, 2005. Increased production also led to an increase in the royalty paid to the Government of 217% during the year ended March 31, 2006 compared to the year ended March 31, 2005. As discussed above, another result of increased production was a \$314,406 or 151% increase in transportation expenses during the year ended March 31, 2006 compared to the year ended March 31, 2005. We expect oil and gas operating expenses to continue to increase in the upcoming fiscal year as revenue continues to increase.

Despite an overall increase in oil and gas operating expense of 115% during the 2006 fiscal year, expense per BOE declined from \$6.34 per BOE in fiscal 2005 to \$3.84 per BOE in 2006. We calculate oil and gas operating expense per BOE based on the volume of oil actually sold rather than production volume because not all volume produced during the period is sold during the period. The related production costs are expensed only for the units sold, not produced.

This decrease in expense per BOE produced is due to the fact that we significantly increased our sales volume in fiscal 2006. In fiscal 2005, we sold 64,084 barrels of oil, while oil and gas operating expenses were \$406,361. By contrast, in fiscal 2006 we sold 227,976 barrels of oil, while oil and gas operating expenses were \$875,319. As expense per BOE is a function of total expense divided by the number of barrels of oil sold, the 256% increase in sales volume more than offset the 115% increase in expenses resulting in the 49% decrease in oil and gas operating expense per BOE.

*General and Administrative Expenses.* General and administrative expenses during the fiscal year ended March 31, 2006 were \$9,724,597 compared to \$4,060,962 during the year ended March 31, 2005. This represents a 139% increase in general and administrative expenses. This significant increase is attributable to a 463% increase in payroll and other compensation, a 24% increase in rent expenses and a 26% increase in professional services fees. During the year ended March 31, 2006 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 \$4,800,954. Additionally, during the year ended March 31, 2006 we hired more administrative personnel to operate our business, using services of technicians, engineers, accountants and lawyers, as well as incurring other general corporate expenses. We do not expect general and administrative expenses to increase at such a significant rate in upcoming years. We anticipate increases in revenue will outpace the increase in general and administrative expenses in upcoming quarters.

*Depletion.* Depletion expenses for the year ended March 31, 2006 increased by \$937,829 compared to depletion expenses for the year ended March 31, 2005. The major reason for this increase in depletion expense is due to both sales and production volumes increasing over 200% in fiscal 2006 compared to fiscal 2005. The increase in depletion expense is also attributable to the fact that we significantly increased our capitalized cost base by drilling additional wells, continued workover on existing wells and developed additional infrastructure during fiscal 2006.

*Depreciation and Amortization.* Depreciation and amortization expenses for the year ended March 31, 2006 increased 100% compared to previous year. The increase resulted from purchases of fixed assets during the year.

*Loss from Operations.* As a result of significantly increasing expenses, which were only partially offset by revenue from oil sales, during the fiscal year ended March 31, 2006 we realized a loss from operations of \$5,949,170 compared to a loss from operations of \$3,789,534 during the fiscal year ended March 31, 2005. While we realized a 512% increase in revenue during the year ended March 31, 2006 compared to the comparable period 2005, this increase was offset by a 115% increase in oil and gas operating expenses, a 409% increase in depletion expenses and a 139% increase in general and administrative expenses. This resulted in a 57% increase in loss from operations during the fiscal year ended March 31, 2006 compared to the fiscal year ended March 31, 2005. Until such time as expenses exceed revenue from oil and gas sales we will continue to generate operating losses. In future periods, we believe production rates and oil prices will be such that we will be able to generate sufficient revenue from oil sales to offset our expenses. If, however, production levels or oil prices were to decrease, we may be unable to offset our operating expenses with revenue from production and could experience additional losses from operations.

*Other Income.* During the fiscal year ended March 31, 2006 we realized total other income of \$639,880 compared to \$503,565 during the fiscal year ended March 31, 2005. This 27% increase in other income is largely attributable to a \$416,860 increase in interest income, a \$252,767 increase in unrealized gains on marketable securities and a \$51,811 increase in realized gain on marketable securities. During the year ended March 31, 2006 we received approximately \$55 million for securities sold during a private placement transaction completed in December 2005. Therefore, at times during the year, we had funds that were not being used in operations that we invested in deposits and marketable securities. This income is partially offset by a \$513,068 increase in exchange loss resulting from fluctuations of foreign currency rates against the U.S. Dollar and a \$72,055 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 the next twelve months.

*Net Loss.* During the fiscal year ended March 31, 2006 we realized a net loss of \$5,344,333 compared to a net loss of \$3,286,312 during the fiscal year ended March 31, 2005. Notwithstanding the significant increase in revenue resulting from increased oil production during the year ended March 31, 2006 net loss increased significantly. This significant increase in net loss is largely attributable to 139% increase in general and administrative expenses. During the year ended March 31, 2006 our general and administrative expenses increased by \$5,663,635 compared to the year ended March 31, 2005. While expenses have risen significantly during the past year, we do not expect such significant expense increases in upcoming years. We also anticipate that we will continue to realize significant increases in revenue as our production levels continue to increase. Based on these expectations, we anticipate that we will begin to realize net income in upcoming fiscal years.

### **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 March 31, 2006, we have raised \$94,626,926 through the sale of our common stock. As of March 31, 2006, we had cash and cash equivalents on hand of \$51,141,732. We anticipate our capital resources in the upcoming twelve months will likewise consist primarily of revenue from the sale of oil and gas recovered.

Our need for capital, except for funding our ongoing operations, is primarily related to the potential acquisition of additional oil and gas properties. For the period from inception on May 6, 2003 through March 31, 2006, we have incurred capital expenditures of \$66,683,297 for exploration, development and acquisition activities.

### Cash Flows

During the fiscal year ended March 31, 2006 cash was primarily used to fund exploration and development expenditures. We had a net increase in cash and cash equivalents of \$41,152,100 during the current fiscal year. See below for additional discussion and analysis of cash flow.

|  | Twelve months<br>ended<br>March 31, 2006 | Twelve months<br>ended<br>March 31, 2005 |
|--|--|--|
| Net cash used in operating activities            | \$ (834,908)                             | \$ (1,415,004)                           |
| Net cash used in investing activities            | (18,421,553)                             | (18,001,879)                             |
| Net cash provided by financing activities        | <u>60,408,561</u>                        | <u>27,280,160</u>                        |
| <br>NET INCREASE IN CASH AND CASH<br>EQUIVALENTS | <br><u>\$ 41,152,100</u>                 | <br><u>\$ 7,863,277</u>                  |

Our primary source of cash has been cash flows from equity offerings. During the fiscal year ended March 31, 2006 we realized \$57,410,892 from the sale of our common stock. We primarily used this cash to fund our capital expenditures and invest into debt securities. Debt securities were purchased for speculative purposes to have a short-term income from market fluctuations. Throughout the next fiscal year we plan to sell debt securities out and use cash to fund our capital expenditures. At March 31, 2006 we had cash and cash equivalents on hand of \$51,141,732.

We continually evaluate our capital needs and compare them to our capital resources. Our budgeted capital expenditures for the upcoming fiscal year are about \$60 million to \$70 million for exploration, development, production and acquisitions. We believe our export quota and favorable world market prices will allow us to generate sufficient oil and gas revenues to finance the gap of \$10 million to \$20 million required for our planned exploration, development, production and acquisitions. During the year ended March 31, 2006, we spent \$18 million in exploration, development and production. We funded these expenditures primarily from cash on hand and oil sales revenue. We anticipate a significant increase in revenue during the upcoming year. As discussed herein, we were granted export quotas to sell up to 29,200 barrels of crude oil during January 2006, 21,900 barrels of crude oil in March 2006, 14,600 barrels of crude oil in April 2006 and 29,200 barrels of crude oil in May 2006 and June 2006 in the world markets, which has allowed us to realize world market price which is considerable higher than the domestic market price in Kazakhstan.

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 March 31, 2006, excluding current liabilities as listed on our consolidated balance sheet:

**Payments Due By Period**

| <b>Contractual obligations</b>  | <b>Payments Due By Period</b> |                         |                      |                  |                      |
|---|-------------------------------|-------------------------|----------------------|------------------|----------------------|
|   | <b>Total</b>                  | <b>Less than 1 year</b> | <b>1-3 years</b>     | <b>4-5 years</b> | <b>After 5 years</b> |
| Capital Expenditure Commitment <sup>(1)</sup>                         | \$ 10,500,000                 | \$ 6,000,000            | \$ 4,500,000         | -                | -                    |
| Due to the Government of the Republic of Kazakhstan <sup>(2)(3)</sup> | \$ 5,994,200                  | -                       | \$ 5,994,200         | -                | -                    |
| Due to Reservoir Consultants <sup>(4)</sup>                           | \$ 500,000                    | \$ 500,000              | -                    | -                | -                    |
| Liquidation Fund  | \$ 924,592                    | -                       | \$ 924,592           | -                | -                    |
| <b>Total</b>  | <b>\$ 17,918,792</b>          | <b>\$ 6,500,000</b>     | <b>\$ 11,418,792</b> | <b>-</b>         | <b>-</b>             |

- (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, 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 have the exclusive right to negotiate for commercial production rights 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 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 to the ROK in satisfaction of this obligation.
- (3) As with the ADE Block, we will also be required to repay the ROK its historical costs for access to and use of geological and geophysical data gathered and infrastructure improvement previously made by the ROK within the Extended Territory. We are presently negotiating the amount and terms of this obligation with the ROK. This approximately \$6 million obligation represents only our repayment obligation with respect to the ADE Block, and not the extended territory.
- (4) In April 2006 we repaid the whole amount of \$500,000 to reservoir consultants.

**Off-Balance Sheet Financing Arrangements**

As of March 31, 2006, we had no off-balance sheet financing arrangements.

**Critical Accounting Policies**

We have identified the accounting policies below as critical to our business operations and the understanding of our financial statements. The impact of these policies and associated risks are discussed throughout Management's Discussion and Analysis and Plan of Operations where such policies affect our reported and expected financial results. A complete discussion of our accounting policies is included in Note 2 of the Notes to Consolidated Financial Statements.

*Foreign Exchange Transactions*

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. dollar 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.

We have a stock option plan as described in Note 17 of the Notes to Consolidated Financial Statements. 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.

### Full Cost Method of Accounting

We follow the full cost method of accounting for our 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 each quarter.

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, if 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.

### Ceiling test

The capitalized oil and gas properties are subject to a "ceiling test." The full cost ceiling test is an impairment test prescribed by SEC Regulation S-X Rule 4-10. The test determines a limit, or ceiling, on the book value of oil and gas properties. That limit is basically the after tax present value of the future net cash flows from proved crude oil and natural gas reserves. This ceiling is compared to the net book value of the oil and gas properties reduced by any related deferred income tax liability. If the net book value reduced by the related deferred income taxes exceeds the ceiling, impairment or non-cash write down is required. Ceiling test impairment can give the Company a significant loss for a particular period; however, future depletion expense would be reduced.



## Recently Issued Accounting Pronouncements

In December 2004 the FASB issued Statement No. 123R, “Share-Based Payment”, a revision of FASB Statement No. 123, Accounting of Stock-Based Compensation. This Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.” This Statement is effective for public entities that do not file as small business issuers—as of the beginning of the first interim or annual reporting period that begins after June 15, 2005 and for public entities that file as small business issuers—as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The Company applied FASB Statement No. 123R for accounting for transaction in which the Company exchanged its equity instruments for services.

In March 2005, the FASB issued an interpretation of Statement No. 143, “Accounting for Asset Retirement Obligations”. This interpretation clarifies that the term “conditional asset retirement obligation “ as used in the Statement No. 143, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred – generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exist. Statement No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. This interpretation also clarifies when an entity would have sufficient information to reasonable estimate the fair value of an asset retirement obligation. This interpretation is effective no later than the end of fiscal years after December 15, 2005. Management does not expect FASB interpretation to the Statement No. 143 to have an impact to the Company’s consolidated financial position or consolidated results of operations and cash flows.

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." This Statement changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion 20 previously required that most voluntary changes in accounting principles be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FASB Statement No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. This statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after December 15, 2005. Management does not anticipate this statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments", an amendment of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after September 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 March 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets", an amendment of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement amends Statement No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after September 15, 2006. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

## **Effects of Inflation and Pricing**

The oil and natural gas industry is very cyclical and the demand for goods and services of oil field companies, suppliers and others associated with the industry puts extreme pressure on the economic stability and pricing structure within the industry. Typically, as prices for oil and natural gas increase, so do all associated costs. Material changes in prices have an impact on the current revenue stream, estimates of future reserves, borrowing base calculations of bank loans and value of properties in purchase and sale transactions. Material changes in prices can impact the value of oil and natural gas companies and their ability to raise capital, borrow money and retain personnel. While we do not currently expect business costs to materially increase, continued high prices for oil and natural gas could result in increases in the cost of material, services and personnel.

## **Item 7. Financial Statements**

See Consolidated Financial Statement listed in the accompanying index to the Consolidated Financial Statements on Page F-1 herein.

## **Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 8A. Controls and Procedures**

Our principal executive officer 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 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.

The Certifying Officers have also indicated that there were no significant changes in our internal controls over financial reporting or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no significant deficiencies and material weaknesses.

Management, including our Certifying Officers, does not expect that our disclosure controls or its internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

There were no changes in our internal controls over financial reporting during the quarter ended March 31, 2006 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Item 8B. Other Information

None.

### PART III

#### Item 9. Directors, Executive Officers, Promoters and Control Persons.

The following table sets forth our directors, executive officers, promoters and control persons, their ages, and all offices and positions held within the Company. Directors are elected for a period of one year and thereafter serve until their successor is duly elected by the stockholders and qualified. Officers and other employees serve at the will of the Board of Directors.

| <u>Name</u>       | <u>Age</u> | <u>Positions with BMB</u>                                      | <u>Director Since</u> |
|-------------------|------------|--|-----------------------|
| Boris Cherdabayev | 52         | Chairman of the Board of Directors and Chief Executive Officer | November 2003         |
| Georges Benarroch | 57         | Director   | November 2003         |
| Sanat Kasymov     | 30         | Chief Financial Officer  |                       |
| Gamal Kulumbetov  | 31         | Chief Operating Officer  |                       |
| Troy Nilson       | 40         | Director   | December 2004         |
| Stephen Smoot     | 50         | Director   | January 2005          |
| Askar Tashtitov   | 27         | President  |                       |
| Valery Tolkachev  | 37         | Director   | December 2003         |
| Adam Cook         | 32         | Corporate Secretary  |                       |

The above individuals will serve as our officers and/or directors. A brief description of their background and business experience follows:

**Boris Cherdabayev.** Mr. Cherdabayev joined BMB Holding, Inc., and assumed his current positions in May 2003. From May 2000 to May 2003, Mr. Cherdabayev served as Director at LLP TengizChevroil, LLP a multinational oil and gas company owned by Chevron, ExxonMobil, KazMunayGas and LukOil. From 1998 to May 2000, Mr. Cherdabayev served as a member of the Board of Directors, Vice-President of Exploration and Production and Executive Director on Services Projects Development for at NOC "Kazakhoil", an oil and gas exploration and production company. From 1983 to 1988, he served as a people's representative at Novouzen City Council (Kazakhstan) and from 1994 to 1998; he served as a people's representative at Mangistau Oblast Maslikhat (regional level legislative structure) and a Chairman of the Committee on Law and Order. For his achievements Mr. Cherdabayev has been awarded with a national "Kurmet" order. Mr. Cherdabayev earned an engineering degree from the Ufa Oil & Gas Institute, with a specialization in "machinery and equipment of oil and gas fields" in 1976. Mr. Cherdabayev also earned an engineering degree from Kazakh Polytechnic Institute, with a specialization in "mining engineer on oil and gas fields' development." During his career he also completed an English language program in the USA, the CHAMP Program (Chevron Advanced Management Program) at Chevron Corporation offices in San Francisco, CA, USA, and the CSEP Program (Columbia Senior Executive Program) at Columbia University, New York, NY USA. Mr. Cherdabayev is not a director or nominee of any other reporting company.

**Georges Benarroch.** Mr. Benarroch has been a member of the Investment Dealer Association of Canada and has served as the president and chief executive officer of Euro Canadian Securities Limited and its successor company, Credifinance Securities Limited, an institutional investment bank, based in Toronto, a member of the Toronto Stock Exchange and the Montreal Exchange since 1982. Credifinance Securities Limited has been one of the North American pioneers in providing investment banking and equity research coverage of companies in the Former Soviet Union (“FSU.”) Since 1994, Credifinance Securities Limited has acted as agent and/or underwriter, stock exchange sponsor, and introducing broker for a number of companies operating in the FSU and was instrumental in supporting Hurricane Hydrocarbons (now PetroKazakhstan) and Transmeridian Exploration through their early stages of development. Mr. Benarroch is also the president and chief executive officer of Credifinance Capital Inc. based in Toronto, Canada and Credifinance Capital Corp. based in Palm Beach, Florida, both companies specialized in proprietary trading, private equity funding and venture capital. Since 1994, he has also served as president and chief executive officer of InterUnion Financial Corporation, a “business bank”, which in 1996 created InterUnion Asset Management, a Canadian money management firm with over \$1.5 billion under management prior to being sold in 2001. Mr. Benarroch graduated from the Faculte de Droit in Toulouse (France), with a B.Sc. degree from the Universite de Montreal (Canada) in 1970. He received a M.Sc. International Relations and Economic Development from both the Faculte de Droit de Nice (France) and the Institut des Hautes Etudes Internationales, in 1972 and 1972 respectively. Mr. Benarroch completed a Doctorat de Droit (III cycle) at the Universite de Paris (France) in 1974. Mr. Benarroch is not a director or nominee of any other reporting company.

**Sanat Kasymov.** Mr. Kasymov graduated from Istanbul University of Istanbul, Turkey in 1998 where he was awarded a Bachelors degree in Economics with an emphasis in International Relations. In 2003, Mr. Kasymov passed the AICPA Uniform CPA Examination. From April 1999 through December 2001 Mr. Kasymov was employed as the Chief Specialist of the Corporate Relations Department of Demir Kazakhstan Bank. From December of 2001 through 2004 Mr. Kasymov was employed at Deloitte & Touche as a Senior Auditor where he became proficient in the application of both international and national accounting (IAS/ US GAAP) and auditing standards (ISA/ US GAAS). From February 2005 to January 2006, when he was appointed as the Company’s Chief Financial Officer, Mr. Kasymov served as the Financial Manager of BMB Munai, Inc. Mr. Kasymov is not a director or nominee of any reporting company.

**Gamal Kulumbetov.** Mr. Kulumbetov graduated from the Kazakh National Technical University, Department of Oil and Gas Geology located in Almaty, Kazakhstan in 1997 where he was awarded a Bachelors degree in Geology. Mr. Kulumbetov is now in the process of completing a Ph.D. from the same university. Since graduating in 1997 Mr. Kulumbetov has completed various oil and gas and geological trainings from Japan National Oil Corporation, MI Drilling Fluids LLC of Germany, Chevron Texaco of Houston, Petroleum Industry Training Center of Almaty, Kazakhstan, and Ernst & Young Company of Almaty, Kazakhstan. In 2000 Mr. Kulumbetov was employed by Halliburton as a Surface Data Logging Engineer. From 2001 through April 2005 Mr. Kulumbetov was employed by LLP TengizChevroil (“TCO”) as the Deputy Manager of the TCO Fields Development Project. From April 2005 to December 2005 Mr. Kulumbetov was employed at Big Sky Energy Corporation as Chief Geologist. Mr. Kulumbetov joined BMB Munai, Inc. as a Vice President of Operations in December of 2005. Mr. Kulumbetov is not a director or nominee of any reporting company.

**Troy F. Nilson, CPA.** Since February 2001, Mr. Nilson has served as an Audit Partner with Chisholm, Bierwolf & Nilson, Certified Public Accountants, in Bountiful, Utah. From December 2000 to February 2001, he served as an Audit Manager for Crouch, Bierwolf & Associates, Certified Public Accountants, in Salt Lake City, Utah. Prior to that time, Mr. Nilson served as the Senior Auditor for Intermountain Power Agency in Salt Lake City, Utah from March 1995 to December 2000. In past five years, Mr. Nilson has extensive public and private company audit, audit review and Securities and Exchange Commission disclosure and reporting experience. Mr. Nilson received licensure as a Certified Public Accountant in 1997. Mr. Nilson earned a Masters of Science Degree in Business Information Systems from Utah State University in December 1992, and a Bachelor of Science in Accounting from Utah State University in August 1990. Mr. Nilson is not a director or nominee of any other reporting company.

**Stephen Smoot.** During the past five years Mr. Smoot has been self-employed as a consultant in the area of foreign technology development and transfer. Mr. Smoot assisted in forming Caspian Service Group Limited, a wholly-owned subsidiary of EMPS Corporation, in December 1999, and served as President of Caspian Services from inception until February 2002. Mr. Smoot served as the Interim President of EMPS Corporation from June 2004 until December 2004. Mr. Smoot is not a director or nominee of any other reporting company.

**Askar Tashtitov.** Mr. Tashtitov has been with the Company since 2004, serving in the capacity of financial analyst. Prior to joining the Company, from 2002 to 2004, Mr. Tashtitov was employed by PA Government Services, Inc. Mr. Tashtitov worked as a management consultant specializing in oil and gas projects. In May 2002, Mr. Tashtitov earned a Bachelor of Arts degree from Yale University majoring in Economics and History. Mr. Tashtitov is not a director or nominee of any reporting company.

**Valery Tolkachev.** Since 1999 Mr. Tolkachev has been employed with Aton Investment Company in Moscow, Russia. He is currently serving as a Managing Director of Capital Markets for Aton. From 1991 to 1999, Mr. Tolkachev served in various positions including, broker, analyst, manager and V.P. of Equities Department at MDM Bank, InkomBank, InkomCapital, Tveruniversalbank and TIRAbrok Company. Mr. Tolkachev graduated with Honors from the High Military School in Kiev, USSR in 1989. In June 2005 Mr. Tolkachev graduated from the Academy of National Economy, Moscow Law Faculty and has applied for admission to practice law in Russia. Mr. Tolkachev also serves as a director of Caspian Services, Inc., and Bekem Metals, Inc., both are U.S. reporting companies.

**Adam Cook.** Mr. Cook graduated from the University of Utah with a B.S. degree in Business Administration, with a minor in English in 1999. Mr. Cook's work experience includes working for Intermountain Piping Supply (IPS), a polyurethane pipe and fitting supply company and Vinson Supply a Pipe Valve and Fitting supply company where he held various positions of responsibility including sales and customer support. Mr. Cook also worked at Phillips Petroleum oil refinery located in Woods Cross, Utah, where he worked with a team of laborers to bring several environmental concerns to current standards. From 2000 through 2003, Mr. Cook's principal business activities included working as an independent business consultant to Poulton & Yordan, a Salt Lake City based law firm that specializes in counseling public companies. Since 2003, Mr. Cook has been primarily self-employed providing consulting services to public entities regarding mergers, acquisitions and contract review. Mr. Cook is not a director or nominee of any reporting company.

## **Family Relationships**

There are no family relationships among our directors and/or executive officers.

## **Involvement in Certain Legal Proceedings**

During the past five years none of our executive officers, directors, promoters or control persons has been involved in any of the following events that could be material to an evaluation of his ability or integrity, including:

- (1) Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time.
- (2) Any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- (3) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and
- (4) Being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, which judgment has not subsequently been reversed, suspended, or vacated.

## **Board Committees**

Our board of directors has established an audit committee, whose principal functions are to assist the board in monitoring the integrity of our financial statements, the independent registered public accounting firm's qualifications and independence, the performance of our independent registered public accounting firm and our compliance with legal and regulatory requirements. The audit committee has the sole authority to retain and terminate our independent registered public accounting firm, to approve the compensation paid to our independent registered public accounting firm and to oversee our internal audit function. The audit committee is comprised of two independent directors, Troy Nilson and Valery Tolkachev, with Mr. Nilson acting as chairman. Our board of directors has determined that Mr. Nilson qualifies as an "audit committee financial expert" under the rules of the SEC adopted pursuant to the requirements of the Sarbanes-Oxley Act of 2002. Mr. Nilson and Mr. Tolkachev each qualifies as "independent" in accordance with the applicable regulations adopted by the SEC.

Our board of directors has also established a compensation committee. The principal function of the compensation committee is to make recommendations regarding compensation of the Company's officers. The compensation of our chief executive officer is recommended to the board (in a proceeding in which our chief executive officer does not participate) by the compensation committee. Our compensation committee is comprised of three independent directors consisting of Troy Nilson, Valery Tolkachev and Stephen Smoot. Compensation for all other officers is also recommended to the board for determination, by the compensation committee.

We currently do not have a nominating committee. Instead, our independent directors fulfill the role of a nominating committee. When vacancies occur the board will consider director nominees recommended by shareholders, as well as director nominees recommended by a majority of the directors who are then independent.

Our board may establish other committees from time to time to facilitate our management.

#### **Compliance with Section 16(a) of the Exchange Act**

Based solely on a review of Forms 3, 4 and 5 and amendments thereto furnished to us during its most recent fiscal year, it appears that Boris Cherdabayev and Valery Tolkachev each inadvertently failed to timely file a Form 4 in July 2005 when they received a stock option and restricted stock grant. It also appears that Sanat Kasymov and Gamal Kulumbetov each inadvertently failed to file a Form 3 at the time they were appointed as officers of the Company.

#### **Code of Ethics**

We have adopted a Code of Ethics that applies to our principal executive, financial and accounting officers and persons performing similar duties. The Code is designed to deter wrong-doing and promote honest and ethical behavior, full, fair, timely, accurate and understandable disclosure and compliance with applicable governmental laws, rules and regulations. It is also designed to encourage prompt internal reporting of violations of the Code to an appropriate person and provides for accountability for adherence to the Code. A copy of our Code of Ethics has been posted on our website and may be viewed at [www.bmbmunai.com](http://www.bmbmunai.com). A copy of the Code of Ethics will be provided to any person without charge upon written request to our Assistant Secretary at our U.S. offices, 324 South 400 West, Suite 250, Salt Lake City, Utah 84101.

#### **Item 10. Executive Compensation.**

The following table sets forth information concerning the compensation paid by us for the fiscal years ended March 31, 2006 and 2005 fiscal years and for the period from inception (May 6, 2003) through March 31, 2004, to our chief executive officer, former chief executive officer and other most highly compensated executive officers.



**SUMMARY COMPENSATION TABLE**

| Name & Principal<br>Position   | Year | Annual Compensation |         |                              | Long Term<br>Awards           |                    | Compensation<br>Payouts |                           |
|--|------|---------------------|---------|------------------------------|-------------------------------|--------------------|-------------------------|---------------------------|
|  |      | Salary              | Bonus   | Other Annual<br>Compensation | Restricted<br>Stock<br>Awards | Options<br>/SARs # | LTIP<br>Payout<br>(\$)  | All Other<br>Compensation |
| Boris Cherdabayev<br>CEO and Director  | 2006 | \$310,502           | \$-0-   | \$-0-                        | 189,744                       | 410,256            | \$-0-                   | \$-0-                     |
|  | 2005 | 200,558             | -0-     | -0-                          | -0-                           | --                 | -0-                     | -0-                       |
|  | 2004 | 10,000              | 105,000 | -0-                          | -0-                           | --                 | -0-                     | -0-                       |
| Sanat Kasymov<br>CFO   | 2006 | 105,574             | -0-     | -0-                          | 30,000                        | --                 | -0-                     | -0-                       |
| Anuar<br>Kulmagambetov<br>Former CFO <sup>(1)</sup>  | 2006 | 188,525             | -0-     | -0-                          | 157,368                       | 332,632            | -0-                     | -0-                       |
|  | 2005 | 185,667             | -0-     | -0-                          | -0-                           | --                 | -0-                     | -0-                       |
| Alexandre Agaian<br>Former Director,<br>Former President<br>and, Former CEO <sup>(2)</sup> | 2006 | 165,600             | -0-     | -0-                          | 70,526                        | --                 | -0-                     | -0-                       |
|  | 2005 | 230,122             | -0-     | -0-                          | -0-                           | --                 | -0-                     | -0-                       |

(1) Mr. Kulmagambetov was the chief finance officer from November 2003 to January 2006.

(2) Mr. Agaian was the president, co-chief executive officer and a director of the Company from November 2003 to July 2005.

**Compensation of Directors**

Effective as of September 2004, all our outside directors are compensated with a stipend of \$25,000 per year plus \$1,000 for each directors meeting attended in person, plus airfare and hotel expense. No director receives a salary as a director.

**Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

We currently have no employment contracts with any of our named executive officers. In July 2005 Alexandre Agaian, former President/co-CEO and director, received \$116,861 in cash and a restricted stock grant of 70,526 common shares in connection with his separation from the Company. In January 2006, we entered into a separation agreement with Anuar Kulmagambetov, our former CFO, pursuant to which we agreed to pay Mr. Kulmagambetov \$123,776 in cash, granted him a restricted stock grant of 50,000 common shares and an option to purchase up to 100,000 restricted common shares at \$7.40 per share. Except as stated above, in the past three years no other executive officer has received any amounts in connection with his resignation, retirement, or other termination. No executive officer received any amounts in the last three years in connection with a change in control of the Company or a change in the executive officer's responsibilities after a change in control.

## Item 11. Security Ownership of Certain Beneficial Owners and Management

The term “beneficial owner” refers to both the power of investment and the right to buy and sell our shares. It also refers to rights of ownership or the right to receive distributions from the Company and proceeds from the sale of Company shares. Since these rights may be held or shared by more than one person, each person who has a beneficial ownership interest in shares is deemed to be the beneficial owners of the same shares because there is shared power of investment or shared rights of ownership.

The following table sets forth as of June 22, 2006, the name and the number of shares of our common stock, par value of \$0.001 per share, held of record or beneficially by each person who held of record, or was known by us to own beneficially, more than 5% of the 43,740,657 outstanding shares of our common stock, and the name and shareholdings of each director and of all executive officers and directors as group.

| Type of Security | Name and Address  | Amount & Nature of Beneficial Ownership | % of Class           |
|------------------|---|---|----------------------|
| Common           | Bakhytbek Baiseitov<br>100 Shevchenko Street<br>Almaty 480072<br>Republic of Kazakhstan               | 4,267,177 <sup>(1)</sup>                | 9.8%                 |
| Common           | Georges Benarroch<br>41A Avenue Road,<br>Toronto, Ontario M5R 2G3, Canada                             | 704,940 <sup>(2)</sup>                  | 1.6% <sup>(6)</sup>  |
| Common           | Boris Cherdabayev<br>202 Dostyk Ave, 4 <sup>th</sup> Floor<br>Almaty 050051<br>Republic of Kazakhstan | 6,524,983 <sup>(3)</sup>                | 14.7% <sup>(6)</sup> |
| Common           | Sanat Kasymov<br>202 Dostyk Ave, 4 <sup>th</sup> Floor<br>Almaty 050051<br>Republic of Kazakhstan     | 50,000                                  | *                    |
| Common           | Askar Tashtitov<br>202 Dostyk Ave, 4 <sup>th</sup> Floor<br>Almaty 050051<br>Republic of Kazakhstan   | 50,000                                  | *                    |
| Common           | Gamal Kulumbetov<br>202 Dostyk Ave, 4 <sup>th</sup> Floor<br>Almaty 050051<br>Republic of Kazakhstan  | 40,000                                  | *                    |
| Common           | Troy Nilson<br>533 West 2600 South #250<br>Bountiful, Utah 84010                                      | 10,000                                  | *                    |

|  |  |                          |              |
|--|--|--------------------------|--------------|
| Common   | Stephen Smoot<br>875 Donner Way, Suite 705<br>Salt Lake City, Utah 84108   | 10,000                   | *            |
| Common   | Valery Tolkachev<br>27/6 Pokrovka St.<br>Moscow, Russia  | 190,000 <sup>(4)</sup>   | *(6)         |
| Common   | Toleush Tolmakov<br>Daulet village, oil storage depot<br>Aktau 466200<br>Republic of Kazakhstan  | 2,800,365                | 6.4%         |
| Common   | Touradji Global Resources<br>Master Fund, Ltd.<br>c/o Spectrum Global Fund Administration<br>(Cayman)<br>Anchorage Center, Second Floor<br>P.O. Box 10243 APO<br>Grand Cayman, Cayman Islands<br>BWI | 2,259,265 <sup>(5)</sup> | 5.2%         |
| All executive officers and directors<br>as a group (8 persons) |  | 7,579,923                | 16.9%        |
| <b>TOTAL</b>   |  | <b>16,906,730</b>        | <b>37.9%</b> |

\* Less than 1%.

(1) Mr. Baiseitov holds 1,714,286 shares in his own name and 2,552,891 shares in the name of MB-Invest LLC, a Kazakhstan limited company, in which Mr. Baiseitov holds a 100% interest and therefore may be deemed to have voting and investment power over the shares held by MB-Invest LLC.

(2) The shares attributed to Mr. Benarroch include: i) 452,083 shares held of record by Credifinance Capital Corp., which are included in this registration statement. Mr. Benarroch is the president of Credifinance Capital Corp., and therefore may be deemed to be the beneficial owner of those shares; ii) an immediately exercisable options to acquire 142,857 shares of our common stock held of record in the name of Credifinance Securities, Ltd. As the CEO of Credifinance Securities, Ltd., Mr. Benarroch may be deemed to be the beneficial owner of those shares; iii) an immediately exercisable option to acquire 68,421 shares of our common stock held of record by Mr. Benarroch's; and iv) 41,579 shares of common stock held of record by Mr. Benarroch.

(3) The shares attributed to Mr. Cherdabayev include 3,412,601 shares held of record by Mr. Cherdabayev, 2,552,126 shares held of record by Westfall Group Limited FBO Boris Cherdabayev and immediately exercisable options held by Mr. Cherdabayev to acquire 560,256 shares of our common stock.

(4) The shares attributed to Mr. Tolkachev include 71,579 shares of common stock held of record by Mr. Tolkachev and immediately exercisable options to acquire 118,421 shares of our common stock.

(5) Mr. Paul Touradji is the managing member of Touradji Capital GP LLC, the General Partner of Touradji Capital Management, LP. Mr. Paul Touradji is the director of Touradji Global Resources Master Fund, Ltd.

(6) The percentages reflect the increase in the number of common shares that would be issued in connection with the exercise of outstanding options.

Messers. Cherdabayev, Kasymov, Kulumbetov and Tashtitov are officers of the Company. Mr. Tolmakov is an officer of the Company's wholly-owned subsidiary, Emir Oil, LLP. Messers. Benarroch, Cherdabayev, Nilson, Smoot and Tolkachev are directors of the Company.

### Change in Control

To our knowledge, there are no present arrangements or pledges of our securities that may result in a change in control of the Company.

## Item 12. Certain Relationships and Related Transactions.

The transactions described below were carried out on terms at least as favorable to the Company as could have been obtained from unaffiliated third parties in arm's length negotiations, however, because the transactions were with parties that may be deemed to be affiliates, it is possible that we would have obtained different terms from a truly unaffiliated third-party.

During 2006 and 2005 we have leased land, oil storage facilities and office and warehouse space in Aktau, Kazakhstan from Term Oil LLC. We recently negotiated a five-year extension of this lease. The basic terms of the new lease are unchanged, including the initial monthly rental payment, which did not increase. We expect to continue to lease these facilities for full term of our agreement with Term Oil LLC, which now expires on December 31, 2009. During the fiscal year ended March 31, 2006 and 2005 we paid Term Oil \$276,055 and \$218,428, respectively for the use of these facilities. Toleush Tolmakov, a BMB shareholder and director of Emir Oil is the owner of Term Oil.

During fiscal 2006 and 2005 both us and our subsidiary, Emir Oil, maintained bank accounts with Bank CenterCredit. During the fiscal years ended March 31, 2006 and 2005 we paid Bank CenterCredit \$47,185 and \$19,777 respectively for banking services provided. Mr. Bakhytbek Baiseitov, a BMB shareholder and former BMB director is the Chairman of the Board of Directors of Bank CenterCredit.

During 2006 and 2005 Zhanaozen Repair and Mechanical Plant Ltd supplied construction materials for our exploration and development activities. During the fiscal years ended March 31, 2006 and 2005 we paid Zhanaozen Repair and Mechanical Plant Ltd \$22,399 and \$66,065 respectively for materials supplied. Adilbay Tolmakov, brother of Toleush Tolmakov, a BMB shareholder and director of Emir Oil, is 38% shareholder of Zhanaozen Repair and Mechanical Plant Ltd.

During the quarter ended September 30, 2005, we provided an interest free loan in the amount of \$15,000 to an employee. The employee was not an executive officer or director of the Company.

During 2005 and 2006, we have retained the services of several entities, including KazMorGeofizika CJSC, PE Blinder and PE Kunayeva to provide us with geophysical research, drilling and other services. Each of these entities may be deemed to be affiliated with BMB through Mirgali Kunayev, who served as a BMB director from November 2003 through January 13, 2005, and continues to be a BMB shareholder. Mr. Kunayev was or is an officer and/or director of KazMorGeofizika at the time these services were rendered or contracted for. Mr. Kunayev's sister owns PE Kunayeva. Mr. Kunayev's wife owns PE Blinder. During the years ended March 31, 2006 and 2005 expenses for those services totaled to \$50,136 and \$123,843.

Information regarding transactions with related parties are also disclosed in Note 17 to our Consolidated Financial Statements.

**Item 13. Exhibits.**

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

|              |  |
|--------------|--|
| Exhibit 21.1 | Subsidiaries   |
| Exhibit 23.1 | Consent of Chapman Petroleum Engineering Ltd., Independent Petroleum Engineers                         |
| Exhibit 23.2 | Consent of BDO Kazakhstanaudit, LLP, Independent Registered Public Accounting Firm                     |
| 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 |

**Item 14. Principal Accountant Fees and Services**

BDO Kazakhstanaudit served as our independent registered public accounting firm for the year ended March 31, 2006 and 2005, and is expected to serve in that capacity for the current year. Principal accounting fees for professional services rendered for us by BDO Kazakhstanaudit for the year ended March 31, 2006 and 2005, is summarized as follows:

|               | 2006      | 2005      |
|---------------|-----------|-----------|
| Audit         | \$168,645 | \$149,343 |
| Audit related | -         | -         |
| Tax           | -         | -         |
| All other     | -         | -         |
| Total         | \$168,645 | \$149,343 |

*Audit Fees.* Audit fees were for professional services rendered in connection with our annual financial statement audits and quarterly reviews of financial statements for filing with the Securities and Exchange Commission.

*Audit Committee Pre-Approval Policies and Procedures.* At its regularly scheduled and special meetings, the Audit Committee considers and pre-approves any audit and non-audit services to be performed by our independent accountants. The Audit Committee has the authority to grant pre-approvals of non-audit services.

**SIGNATURES**

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

**BMB MUNAI, INC.**

Date: January 4, 2008

/s/ Gamal Kulumbetov

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Gamal Kulumbetov  
Chief Executive Officer

**BMB MUNAI, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the years ended March 31, 2006 and 2005**

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Report of Independent Registered Public Accounting Firm

The Board of Directors  
BMB Munai, Inc.

We have audited the accompanying consolidated balance sheets of BMB Munai, Inc. as of March 31, 2006 and March 31, 2005, and the related consolidated statements of loss, shareholders' equity, and cash flows for the years ended March 31, 2006 and March 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BMB Munai, Inc. at March 31, 2006 and at March 31, 2005 and the consolidated results of its operations and its cash flow for the years ended March 31, 2006 and March 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Kazakhstanaudit, LLP

June 26, 2006  
Almaty, Kazakhstan



**BMB MUNAI, INC****CONSOLIDATED BALANCE SHEETS**

|   | <b>Notes</b> | <b>March 31, 2006</b>        | <b>March 31, 2005</b>       |
|---|--------------|------------------------------|-----------------------------|
| <b>ASSETS</b>                                     |              |                              |                             |
| <b>CURRENT ASSETS</b>                             |              |                              |                             |
| Cash and cash equivalents                         | 6            | \$ 51,141,732                | \$ 9,989,632                |
| Marketable securities                             | 7            | -                            | 788,921                     |
| Trade accounts receivable                         |              | 1,675,202                    | 132,400                     |
| Inventories                                       | 8            | 3,239,947                    | 3,227,411                   |
| Prepayments for materials                         |              | 712,526                      | 589,944                     |
| Prepaid expenses and other assets, net            | 9            | 566,920                      | 2,364,596                   |
| Total current assets                              |              | <u>57,336,327</u>            | <u>17,092,904</u>           |
| <b>LONG TERM ASSETS</b>                           |              |                              |                             |
| Oil and gas properties, full cost method, net     | 10           | 66,683,297                   | 49,172,304                  |
| Other fixed assets, net                           | 11           | 1,020,951                    | 683,459                     |
| Intangible assets, net                            | 12           | 49,656                       | 14,435                      |
| Long term VAT recoverable                         |              | 1,335,971                    | 1,217,751                   |
| Restricted cash                                   | 16           | 156,454                      | 60,973                      |
| Total long term assets                            |              | <u>69,246,329</u>            | <u>51,148,922</u>           |
| <b>TOTAL ASSETS</b>                               |              | <b><u>\$ 126,582,656</u></b> | <b><u>\$ 68,241,826</u></b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |              |                              |                             |
| <b>CURRENT LIABILITIES</b>                        |              |                              |                             |
| Accounts payable                                  |              | \$ 3,629,338                 | \$ 5,844,639                |
| Due to reservoir consultants                      | 13           | 500,000                      | 278,000                     |
| Taxes payable                                     |              | 145,406                      | 333,063                     |
| Due to Astana Fund                                | 14           | -                            | 250,000                     |
| Accrued liabilities and other payables            |              | 349,231                      | 291,969                     |
| Total current liabilities                         |              | <u>4,623,975</u>             | <u>6,997,671</u>            |
| <b>LONG TERM LIABILITIES</b>                      |              |                              |                             |
| Due to reservoir consultants                      | 13           | -                            | 222,000                     |
| Liquidation fund                                  | 15           | 924,592                      | 60,973                      |
| Deferred income tax liabilities                   | 4            | 6,405,285                    | 6,370,242                   |
| Total long term liabilities                       |              | <u>7,329,877</u>             | <u>6,653,215</u>            |
| <b>COMMITMENTS AND CONTINGENCIES</b>              | 19           | -                            | -                           |
| <b>SHAREHOLDERS' EQUITY</b>                       |              |                              |                             |
| Share capital                                     | 17           | 42,224                       | 30,514                      |
| Additional paid in capital                        | 17           | 123,831,007                  | 58,460,520                  |
| Accumulated deficit                               |              | (9,244,427)                  | (3,900,094)                 |
| Total shareholders' equity                        |              | <u>114,628,804</u>           | <u>54,590,940</u>           |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |              | <b><u>\$ 126,582,656</u></b> | <b><u>\$ 68,241,826</u></b> |

See notes to the consolidated financial statements.

**BMB MUNAI, INC****CONSOLIDATED STATEMENTS OF OPERATIONS**

|   | <b>Notes</b> | <b>Year ended<br/>March 31, 2006</b> | <b>Year ended<br/>March 31, 2005</b> |
|---|--------------|--------------------------------------|--------------------------------------|
| REVENUES  | 3            | \$ 5,956,731                         | \$ 973,646                           |
| EXPENSES  |              |                                      |                                      |
| Oil and gas operating   |              | 875,319                              | 406,361                              |
| General and administrative  |              | 9,724,597                            | 4,060,962                            |
| Depletion   |              | 1,167,235                            | 229,406                              |
| Amortization and depreciation                                     |              | 133,148                              | 66,451                               |
| Accretion expenses  |              | 5,602                                | -                                    |
| Total expenses  |              | <u>11,905,901</u>                    | <u>4,763,180</u>                     |
| LOSS FROM OPERATIONS  |              | (5,949,170)                          | (3,789,534)                          |
| OTHER INCOME (EXPENSE)  |              |                                      |                                      |
| Realized gain on marketable securities                            |              | 236,878                              | 185,067                              |
| Unrealized loss on marketable securities                          |              | -                                    | (252,767)                            |
| Foreign exchange (loss) / gain, net                               |              | (13,547)                             | 499,521                              |
| Interest income, net  |              | 434,659                              | 17,799                               |
| Other (expense) / income, net                                     |              | <u>(18,110)</u>                      | <u>53,945</u>                        |
| Total other income  |              | <u>639,880</u>                       | <u>503,565</u>                       |
| LOSS BEFORE INCOME TAXES  |              | (5,309,290)                          | (3,285,969)                          |
| INCOME TAX EXPENSE  | 4            | (35,043)                             | (343)                                |
| NETLOSS   |              | <u>\$ (5,344,333)</u>                | <u>\$ (3,286,312)</u>                |
| WEIGHTED AVERAGE COMMON SHARES<br>OUTSTANDING – BASIC AND DILUTED | 5            | 34,867,642                           | 26,948,437                           |
| LOSS PER COMMON SHARE (BASIC AND<br>DILUTED)                      | 5            | \$ (0.15)                            | \$ (0.12)                            |

See notes to the consolidated financial statements.

**BMB MUNAI, INC**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

|   | <u>Notes</u> | <u>Number of<br/>shares</u> | <u>Share<br/>capital</u> | <u>Additional<br/>paid-in capital</u> | <u>Accumulated<br/>deficit</u> | <u>Total</u>                 |
|---|--------------|-----------------------------|--------------------------|---------------------------------------|--------------------------------|------------------------------|
| <b>At March 31, 2004</b>  |              | <b>20,429,421</b>           | <b>\$20,429</b>          | <b>\$12,115,445</b>                   | <b>\$(613,782)</b>             | <b>\$11,522,092</b>          |
| Common stock issued in<br>exchange of 30% shares<br>of Emir Oil LLC | 17           | 3,500,000                   | 3,500                    | 19,071,500                            | -                              | 19,075,000                   |
| Common stock issued in<br>private placements                        | 17           | 6,584,340                   | 6,585                    | 27,273,575                            | -                              | 27,280,160                   |
| Common stock issued for<br>subscription                             | 17           | 1,101,000                   | 1,101                    | 5,503,899                             | -                              | 5,505,000                    |
| Subscription receivable   | 17           | (1,101,000)                 | (1,101)                  | (5,503,899)                           | -                              | (5,505,000)                  |
| Net loss for the year   |              | -                           | -                        | -                                     | (3,286,312)                    | (3,286,312)                  |
| <b>At March 31, 2005</b>  |              | <b><u>30,513,761</u></b>    | <b><u>\$ 30,514</u></b>  | <b><u>\$ 58,460,520</u></b>           | <b><u>\$ (3,900,094)</u></b>   | <b><u>\$ 54,590,940</u></b>  |
| Common stock issued in<br>private placements                        | 17           | 10,267,667                  | 10,268                   | 57,400,624                            | -                              | 57,410,892                   |
| Options and warrants<br>exercised                                   | 17           | 902,514                     | 902                      | 2,996,767                             | -                              | 2,997,669                    |
| Stock grants and stock<br>options issued                            | 17           | 539,743                     | 540                      | 4,973,096                             | -                              | 4,973,636                    |
| Net loss for the year   |              | -                           | -                        | -                                     | (5,344,333)                    | (5,344,333)                  |
| <b>At March 31, 2006</b>  |              | <b><u>42,223,685</u></b>    | <b><u>\$ 42,224</u></b>  | <b><u>\$123,831,007</u></b>           | <b><u>\$ (9,244,427)</u></b>   | <b><u>\$ 114,628,804</u></b> |

See notes to the consolidated financial statements.

**BMB MUNAI, INC**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | Notes | Year ended<br>March 31,<br>2006 | Year ended<br>March 31,<br>2005 |
|--|-------|---------------------------------|---------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                       |       |                                 |                                 |
| Net loss   |       | \$ (5,344,333)                  | \$ (3,286,312)                  |
| Adjustments to reconcile net loss to net cash used in operating activities:        |       |                                 |                                 |
| Depletion  | 10    | 1,167,235                       | 229,406                         |
| Depreciation and amortization  |       | 133,148                         | 66,451                          |
| Accretion expenses   | 15    | 5,602                           | -                               |
| Provision for doubtful accounts  | 9     | 66,401                          | 129,051                         |
| Minority interest in operations of subsidiary                                      |       | -                               | (82,134)                        |
| Deferred income tax expense  | 4     | 35,043                          | 343                             |
| Stock based compensation expense   | 17    | 4,800,954                       | -                               |
| Stock issued for services  | 17    | 172,682                         | -                               |
| Unrealized loss on marketable securities   |       | -                               | 252,767                         |
| Changes in operating assets and liabilities  |       |                                 |                                 |
| Decrease in marketable securities  |       | 788,921                         | 1,837,448                       |
| Increase in trade accounts receivable  |       | (1,542,802)                     | (132,400)                       |
| Increase in inventories  |       | (12,536)                        | (3,043,527)                     |
| Decrease / (increase) in prepaid expenses and other assets                         |       | 1,490,473                       | (3,758,022)                     |
| (Decrease) / increase in liabilities   |       | (2,595,696)                     | 6,371,925                       |
| Net cash used in operating activities  |       | <u>(834,908)</u>                | <u>(1,415,004)</u>              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                       |       |                                 |                                 |
| Acquisition of oil and gas properties  | 10    | (17,759,232)                    | (17,411,861)                    |
| Acquisition of other fixed assets  | 11    | (508,339)                       | (536,700)                       |
| Acquisition of intangible assets   | 12    | (58,501)                        | (12,345)                        |
| Restricted cash  | 16    | (95,481)                        | (40,973)                        |
| Net cash used in investing activities  |       | <u>(18,421,553)</u>             | <u>(18,001,879)</u>             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                       |       |                                 |                                 |
| Proceeds from sale of common stock   | 17    | 57,410,892                      | 27,280,160                      |
| Proceeds from exercise of common stock options and warrants                        |       | 2,997,669                       | -                               |
| Net cash provided by financing activities  |       | <u>60,408,561</u>               | <u>27,280,160</u>               |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                                     |       | <b>41,152,100</b>               | <b>7,863,277</b>                |
| <b>CASH AND CASH EQUIVALENTS at beginning of year</b>                              |       | <b>9,989,632</b>                | <b>2,126,355</b>                |
| <b>CASH AND CASH EQUIVALENTS at end of year</b>                                    |       | <b><u>\$ 51,141,732</u></b>     | <b><u>\$ 9,989,632</u></b>      |
| Significant non cash transactions:   |       |                                 |                                 |
| Oil and gas properties liquidation fund  |       | \$ 863,619                      | \$ -                            |
| Accrual of liabilities to Astana Fund  |       | -                               | 250,000                         |
| Acquisition of 30% of Emir Oil LLP by issuance of 3,500,000 shares of common stock |       | -                               | \$ 19,075,000                   |

See notes to the consolidated financial statements.

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# BMB MUNAI, INC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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, the 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 to be in the development stage.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### *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.

These consolidated financial statements are prepared in accordance with United States Generally Accepted Accounting Principles (“US GAAP”).

Emir Oil LLP maintains its accounting records in Kazakhstan Tenge and prepares separate statutory financial statements in accordance with accounting legislation in the Republic of Kazakhstan. Statutory accounting principles and procedures in Kazakhstan differ from accounting principles generally accepted under US GAAP. Accordingly, the accompanying Consolidated Financial Statements, which include Emir Oil LLP’s statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with US GAAP.

**NOTES TO 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 year. Accordingly, actual results could differ from those estimates and affect the results reported in these Consolidated Financial Statements.

*Licenses 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 September 23, 2002, the license was assigned to Emir Oil LLP. 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 duration of the Contract for exploration and License for seven years to June 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. 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 no terms can be negotiated, the Company has a right to produce and sell oil, including export oil, under the Law of Petroleum for the term of its existing contract through June 9, 2007.

*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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Statements of Operations.

The Company has a stock option plan as described in Note 17. 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 persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable, collectibility is reasonably assured, delivery of oil has occurred or when ownership title transferred. Produced but unsold products are recorded as inventory until sold.

*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.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*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.

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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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. The 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.

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 the historical cost adjusted for impairment loss less accumulated depreciation. Historical cost includes all direct costs associated with the acquisition of the fixed assets.

# BMB MUNAI, INC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 sums of expected undiscounted cash flows are 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.

### *Reclassifications*

Certain reclassifications have been made in the financial statements for the year ended March 31, 2005 to conform to the March 31, 2006 presentation. The reclassifications had no effect on net income.

In the Consolidated Balance Sheet as of March 31, 2006 marketable securities in the amount of \$33,095,609 were reclassified to cash equivalents. The reclassification had no effect on net income.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Recent accounting pronouncements*

In March 2005, the FASB issued an interpretation of Statement No. 143, "Accounting for Asset Retirement Obligations". This interpretation clarifies that the term "conditional asset retirement obligation" as used in the Statement No. 143, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred – generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exist. Statement No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. This interpretation also clarifies when an entity would have sufficient information to reasonable estimate the fair value of an asset retirement obligation. This interpretation is effective no later than the end of fiscal years after December 15, 2005. Management does not expect FASB interpretation to the Statement No. 143 to have an impact to the Company's consolidated financial position or consolidated results of operations and cash flows.

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." This Statement changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion 20 previously required that most voluntary changes in accounting principles be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FASB Statement No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. This statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after December 15, 2005. Management does not anticipate this statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments", an amendment of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after September 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 March 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets", an amendment of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement amends Statement No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after September 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. REVENUES**

|                | <u>Year ended<br/>March 31, 2006</u> | <u>Year ended<br/>March 31, 2005</u> |
|----------------|--------------------------------------|--------------------------------------|
| Domestic sales | \$ 4,364,416                         | \$ 973,646                           |
| Export sales   | <u>1,592,315</u>                     | <u>-</u>                             |
|                | <u><b>\$ 5,956,731</b></u>           | <u><b>\$ 973,646</b></u>             |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**4. INCOME TAXES**

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

|                      | <u>Year ended<br/>March 31, 2006</u> | <u>Year ended<br/>March 31, 2005</u> |
|----------------------|--------------------------------------|--------------------------------------|
| Current tax expense  | \$ -                                 | \$ -                                 |
| Deferred tax expense | 35,043                               | 343                                  |
|                      | <u>\$ 35,043</u>                     | <u>\$ 343</u>                        |

Relationship between tax expenses and accounting loss for the years ended March 31, 2006 and 2005 is explained as follows:

|                               | <u>Year ended<br/>March 31, 2006</u> | <u>Year ended<br/>March 31, 2005</u> |
|-------------------------------|--------------------------------------|--------------------------------------|
| Loss before income taxes      | \$ (5,309,290)                       | \$ (3,285,969)                       |
| Expected tax provision        | (1,592,787)                          | (985,791)                            |
| Add tax effect of:            |                                      |                                      |
| Permanent differences         | 2,077,723                            | 976,961                              |
| Change in valuation allowance | (449,893)                            | 9,173                                |
|                               | <u>\$ 35,043</u>                     | <u>\$ 343</u>                        |

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:

|                            | <u>March 31, 2006</u> | <u>March 31, 2005</u> |
|----------------------------|-----------------------|-----------------------|
| Deferred tax assets:       |                       |                       |
| Loss carryforward          | \$ 593,122            | \$ 209,173            |
| Oil and gas properties     | -                     | 240,720               |
|                            | 593,122               | 449,893               |
| Deferred tax liabilities:  |                       |                       |
| Oil and gas properties     | 6,636,522             | 6,369,899             |
| Accrued interest income    | 361,885               | -                     |
| Unrealised interest income | -                     | 343                   |
|                            | 6,998,407             | 6,370,242             |
| Valuation allowance        | -                     | (449,893)             |
| Net deferred tax liability | <u>\$ 6,405,285</u>   | <u>\$ 6,370,242</u>   |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. LOSS PER COMMON SHARE (BASIC AND DILUTED)**

The calculation of the basic and diluted loss per share is based on the following data:

|   | <u>Year ended<br/>March 31, 2006</u> | <u>Year ended<br/>March 31, 2005</u> |
|---|--------------------------------------|--------------------------------------|
| <i>Numerator</i>  |                                      |                                      |
| Net loss for basic and diluted loss per share   | 5,344,333                            | 3,286,312                            |
| <i>Denominator</i>  |                                      |                                      |
| Weighted average number of common shares for the purposes of basic and diluted earnings per share | <u>34,867,642</u>                    | <u>26,948,437</u>                    |
| <b>Loss per share (basic and diluted)</b>   | <b><u>\$ 0.15</u></b>                | <b><u>\$ 0.12</u></b>                |

The effect of the stock warrants and stock options is anti-dilutive.

**6. CASH AND CASH EQUIVALENTS**

As of March 31, 2006 and 2005 cash and cash equivalents included:

|                  | <u>March 31, 2006</u>       | <u>March 31, 2005</u>      |
|------------------|-----------------------------|----------------------------|
| US Dollars       | \$ 50,959,064               | \$ 9,982,103               |
| Foreign currency | <u>182,668</u>              | <u>7,529</u>               |
|                  | <b><u>\$ 51,141,732</u></b> | <b><u>\$ 9,989,632</u></b> |

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

As of March 31, 2006, cash and cash equivalents included short-term debt securities in the amount of \$33,095,609. The short-term debt securities consisted of discount bonds issued by General Electric Corporation and discount notes issued by Fannie Mae.

As of March 31, 2005, cash and cash equivalents included short-term repurchase agreements for securities issued by Kazakhstan banks and Kazakhstan financial institutions in the amount of \$788,921.

As of March 31, 2006 and 2005, cash and cash equivalents included deposits in Kazakhstan banks in the amount of \$3,881,255 and \$9,090,276, respectively.

As of March 31, 2006, cash and cash equivalents included \$324,621 of letters of credit opened for the purpose of purchasing production equipment.

# BMB MUNAI, INC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2006 and 2005 the Company pledged cash in the amount of \$0 and \$15,567, respectively, to collateralize payment to oil drilling and service company for drilling services.

### 7. MARKETABLE SECURITIES

Marketable securities as of March 31, 2006 and 2005 were as follows:

|                           | <u>March 31, 2006</u> | <u>March 31, 2005</u> |
|---------------------------|-----------------------|-----------------------|
| <b>Debt securities</b>    |                       |                       |
| JSC Astana Finance        | \$ -                  | \$ 324,081            |
| JSC Halyk Bank Kazakhstan | -                     | 94,871                |
|                           | -                     | 418,952               |
| <b>Equity securities</b>  |                       |                       |
| JSC Bank Center Credit    | -                     | 369,969               |
|                           | -                     | 369,969               |
|                           | <u>\$ -</u>           | <u>\$ 788,921</u>     |

As of March 31, 2006 none of the Company's marketable securities were pledged to collateralize any operations.

As of March 31, 2005 the Company pledged all marketable securities to collateralize payment to oil drilling and service company for drilling services.

### 8. INVENTORIES

Inventories as of March 31, 2006 and 2005 were as follows:

|                       | <u>March 31, 2006</u> | <u>March 31, 2005</u> |
|-----------------------|-----------------------|-----------------------|
| Construction material | \$ 3,069,144          | \$ 3,103,555          |
| Spare parts           | 13,486                | 59,706                |
| Crude oil produced    | 8,840                 | 7,735                 |
| Other                 | 148,477               | 56,415                |
|                       | <u>\$ 3,239,947</u>   | <u>\$ 3,227,411</u>   |



**BMB MUNAI, INC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****9. PREPAID EXPENSES AND OTHER ASSETS, NET**

Prepaid expenses and other assets, net, as of March 31, 2006 and 2005 were as follows:

|   | <u>March 31, 2006</u>    | <u>March 31, 2005</u>      |
|---|--------------------------|----------------------------|
| Advances for services                                   | \$452,839                | \$2,301,074                |
| Other   | 309,533                  | 192,573                    |
| Reserves against uncollectible advances and prepayments | (195,452)                | (129,051)                  |
|   | <u><b>\$ 566,920</b></u> | <u><b>\$ 2,364,596</b></u> |

Reserves against uncollectible advances and prepayments for the years ended March 31, 2006 and 2005 are presented as follows:

|                             | <u>Year ended<br/>March 31, 2006</u> | <u>Year ended<br/>March 31, 2005</u> |
|-----------------------------|--------------------------------------|--------------------------------------|
| As of beginning of the year | \$ 129,051                           | \$ -                                 |
| Provision                   | 66,401                               | 129,051                              |
| As of end of the year       | <u><b>\$ 195,452</b></u>             | <u><b>\$ 129,051</b></u>             |

Provision expenses for uncollectible advances and prepayments for the years ended March 31, 2006 and 2005 for the amounts of \$66,401 and \$129,051, respectively, are recorded in Consolidated Statements of Operations for the years then ended.

**10. OIL AND GAS PROPERTIES, FULL COST METHOD, NET**

Oil and gas properties, full cost method, net, as of March 31, 2006 and 2005 were as follows:

|  | <u>March 31, 2006</u>      | <u>March 31, 2005</u>       |
|--|----------------------------|-----------------------------|
| Subsoil use rights   | \$ 20,788,119              | \$ 20,788,119               |
| Cost of drilling wells   | 14,895,604                 | 9,334,021                   |
| Professional services received in exploration and development activities | 10,600,327                 | 4,798,314                   |
| Material and fuel used in exploration and development activities         | 6,840,976                  | 2,891,765                   |
| Geological and geophysical   | 1,432,418                  | 653,571                     |
| Infrastructure development costs   | 1,412,999                  | 1,231,391                   |
| Other capitalized costs  | 12,109,495                 | 9,704,529                   |
| Accumulated depletion  | (1,396,641)                | (229,406)                   |
|  | <u><b>\$66,683,297</b></u> | <u><b>\$ 49,172,304</b></u> |

**BMB MUNAI, INC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**11. OTHER FIXED ASSETS, NET**

|   | <u>Construction</u> | <u>Machinery<br/>and<br/>equipment</u> | <u>Vehicles</u>   | <u>Office<br/>equipment</u> | <u>Other</u>      | <u>Total</u>        |
|---|---------------------|--|-------------------|-----------------------------|-------------------|---------------------|
| <b>Cost</b>                                 |                     |  |                   |                             |                   |                     |
| at April 1, 2005                            | \$ 86,205           | \$ 234,200                             | \$ 313,207        | \$ 128,983                  | \$ 38,421         | \$ 801,016          |
| Additions                                   | 63,067              | 138,227                                | 118,914           | 78,256                      | 110,419           | 508,883             |
| Disposals                                   | -                   | -                                      | -                 | (349)                       | (195)             | (544)               |
| at March 31, 2006                           | <u>149,272</u>      | <u>372,427</u>                         | <u>432,121</u>    | <u>206,890</u>              | <u>148,645</u>    | <u>1,309,355</u>    |
| <b>Accumulated<br/>depreciation</b>         |                     |  |                   |                             |                   |                     |
| at April 1, 2005                            | 10,789              | 18,286                                 | 58,866            | 23,834                      | 5,782             | 117,557             |
| Charge for the year                         | 14,133              | 7,901                                  | 93,853            | 28,165                      | 27,339            | 171,391             |
| Disposals                                   | -                   | -                                      | -                 | (349)                       | (195)             | (544)               |
| at March 31, 2006                           | <u>24,922</u>       | <u>26,187</u>                          | <u>152,719</u>    | <u>51,650</u>               | <u>32,926</u>     | <u>288,404</u>      |
| <b>Net book value at<br/>April 1, 2005</b>  | <u>75,416</u>       | <u>215,914</u>                         | <u>254,341</u>    | <u>105,149</u>              | <u>32,639</u>     | <u>683,459</u>      |
| <b>Net book value at<br/>March 31, 2006</b> | <u>\$ 124,350</u>   | <u>\$ 346,240</u>                      | <u>\$ 279,402</u> | <u>\$ 155,240</u>           | <u>\$ 115,719</u> | <u>\$ 1,020,951</u> |

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 \$60,979 was capitalized to oil and gas properties for the year ended March 31, 2006.

**12. INTANGIBLE ASSETS, NET**

|                                 | <u>Year ended<br/>March 31, 2006</u> | <u>Year ended<br/>March 31, 2005</u> |
|---------------------------------|--------------------------------------|--------------------------------------|
| <b>Cost</b>                     |                                      |                                      |
| Beginning balance               | \$ 17,756                            | \$ 5,411                             |
| Additions                       | 59,723                               | 12,345                               |
| Disposals                       | (1,222)                              | -                                    |
| Ending balance                  | <u>76,257</u>                        | <u>17,756</u>                        |
| <b>Accumulated amortisation</b> |                                      |                                      |
| Beginning balance               | 3,321                                | -                                    |
| Amortization for the year       | 23,314                               | 3,321                                |
| Disposals                       | (34)                                 | -                                    |
| Ending balance                  | <u>26,601</u>                        | <u>3,321</u>                         |
| <b>Net book value</b>           | <u>\$ 49,656</u>                     | <u>\$ 14,435</u>                     |

As of March 31, 2006 and 2005 intangible assets include accounting and other software.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**13. DUE TO RESERVOIR CONSULTANTS**

The amount of \$500,000 due to reservoir consultants represents a part of \$700,000 contract with PGS Reservoir Consultants payable during 2006. The Company paid to PGS Reservoir Consultants \$200,000 during 2004 and repaid remaining amount of \$500,000 in April 2006.

**14. DUE TO ASTANA FUND**

In 2004 the Government of the Republic of Kazakhstan imposed a liability in the amount of \$250,000 to make cash contributions to the Astana Fund. The Astana Fund is a government fund used by the Government of the Republic of Kazakhstan to accumulate cash for construction and development of Astana, the new capital of the Republic of Kazakhstan. On May 27, 2005 the Company made cash contribution of \$250,000 to Astana Fund.

**15. LIQUIDATION FUND**

|                        | <u><b>Total</b></u> |
|------------------------|---------------------|
| At March 31, 2004      | <u>\$20,000</u>     |
| Accrual of liability   | 40,973              |
| At March 31, 2005      | <u>60,973</u>       |
| Revision of estimation | 699,174             |
| Accrual of liability   | 158,843             |
| Accretion expense      | 5,602               |
| At March 31, 2006      | <u>\$924,592</u>    |

Management believes that the liquidation fund should be recognized for future abandonment costs of 6 wells located at Dolinnoe, Aksaz and Emir oil fields. Management believes that these obligations are likely to be settled at the end of the production phase at these oil fields.

At March 31, 2006, undiscounted expected cash flows that will be required to satisfy the Company's obligation by 2007 for Dolinnoe, Aksaz and Emir fields, respectively, are \$953,788. After application of a 10% discount rate, the present value of the Company's liability at March 31, 2006 and 2005, is \$924,592 and \$60,973, respectively.

**16. RESTRICTED CASH**

Under the laws of the Republic of Kazakhstan, the Company is obligated to set aside funds for required environmental remediation. As of March 31, 2006 and 2005 the Company contributed \$156,454 and \$60,973 to the Liquidation fund, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 17. SHARE AND ADDITIONAL PAID IN CAPITAL

Common and preferred stock as of March 31, 2006 and 2005 are as follows:

|   | <u>March 31, 2006</u> | <u>March 31, 2005</u> |
|---|-----------------------|-----------------------|
| <b>Preferred stock, \$0.001 par value</b> |                       |                       |
| Authorized                                | 20,000,000            | 20,000,000            |
| Issued and outstanding                    | -                     | -                     |
| <b>Common stock, \$0.001 par value</b>    |                       |                       |
| Authorized                                | 100,000,000           | 100,000,000           |
| Issued and outstanding                    | 42,223,685            | 30,513,761            |

*Acquisition*

On May 24, 2004, the Company agreed to purchase the remaining 30% interest of its minority interest partner in Emir Oil LLP in exchange for 3,500,000 shares of restricted Company common stock. On August 6, 2004, the Company issued the 3,500,000 shares to its minority partner in Emir Oil LLP. The aggregate purchase price was determined to be \$19,075,000 using a price of the Company's common shares on OTCBB on August 6, 2004 of \$5.45 per share. The entire purchase price has been allocated to oil and gas properties in the accompanying Consolidated Balance Sheets.

*Private placements*

On November 26, 2003 the Company placed aggregate of 2,750,494 common shares at US \$2.15 per share. The second private placement consisted of an aggregate of 1,680,000 shares at US \$2.50 per share. The agent received a commission equal to 8.5% of the gross proceeds received by the issuer other than for shares issued to US Persons. In addition, the agent received warrants equal to 10% of the number of shares sold on behalf of the Company. Further, on November 19, 2003, the Company entered into two stock option agreements with the agent. Pursuant the first option agreement, the agent may purchase up to 200,000 common shares of the Company at an exercise price of \$1.00 per shares for a period of five years from the date of the merger. The second option agreement allows the Agent to purchase up to 142,857 common shares of the Company at an exercise price of \$3.50 per share for a period of five years from the date of the merger. The agent also received a fee of \$150,000 for advisory services rendered to the Company in connection with the merger.

On July 2, 2004, the Company sold an aggregate of 4,584,340 common shares of the Company at \$4.00 per share in a private placement offering. The Company received \$17,311,906 net of the agent fees and out of pocket expenses.

On March 9, 2005, the Company sold an aggregate of 2,000,000 common shares of the Company at \$5.00 per share in a private placement offering. The Company received \$9,968,254 net of the agent fees and out of pocket expenses.

On March 31, 2005, the Company sold an aggregate of 1,101,000 common shares of the Company at \$5.00 per share in a private placement offering. On April 12, 2005 the Company received \$5,221,685 net of the agent fees and out of pocket expenses.

## BMB MUNAI, INC

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On December 23, 2005, the Company sold an aggregate of 9,166,667 common shares of the Company at \$6.00 per share in a private placement offering. On December 29, 2005 the Company received \$52,189,207 net of the agent fees and out of pocket expenses.

Common stock sold in private placements as of March 31, 2006 is as follows:

|                          | <u>Number of<br/>shares sold</u> | <u>Share price</u> | <u>Gross amount<br/>raised</u> | <u>Net amount<br/>received</u> |
|--------------------------|----------------------------------|--------------------|--------------------------------|--------------------------------|
| First private placement  | 4,830,494                        | \$ 2.15-\$ 2.50    | \$ 11,113,562                  | \$ 9,935,874                   |
| Second private placement | 4,584,340                        | \$ 4.00            | 18,337,360                     | 17,311,906                     |
| Third private placement  | 3,101,000                        | \$ 5.00            | 15,505,000                     | 15,189,939                     |
| Fourth private placement | 9,166,667                        | \$ 6.00            | 55,000,002                     | 52,189,207                     |
|                          | <u>21,682,501</u>                |                    | <u>\$ 99,955,924</u>           | <u>\$ 94,626,926</u>           |

The offerings were made only to accredited investors in the United States of America under Regulation D and pursuant to Regulation S to non-U.S. Persons.

#### *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 July 18, 2005, the Company granted common shares to Company's directors and officers for past services rendered. The number of shares granted was 360,270. The shares were valued at \$4.75 per share. This stock grant vested immediately. Compensation expense in the amount of \$1,711,283 was recognized in the Consolidated Statements of Operations and Consolidated Balance Sheets.

On July 18, 2005, the Company granted 90,000 restricted common shares to three Company employees. Each employee's stock grants vest in three equal tranches of 10,000 shares on the first, second and third anniversaries of their employment with the Company. The first 10,000 shares of stock grants were valued at \$4.75 per share. The second 10,000 shares were valued at \$6.15 per share. The third 10,000 shares were valued at \$7.5 per share. The fourth 10,000 shares were valued at \$8.75 per share. We record the fluctuations in the fair value of certain unvested stock grants as a deferred compensation asset (reported as a reduction of shareholders' equity on the balance sheet). This asset is amortized upon vesting of related stock grants as non-cash compensation expense. Compensation expense for vested stock grants in the amount of \$271,500 has been recognized in the Consolidated Statement of Operations and Consolidated Balance Sheet for the year ended March 31, 2006.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On July 18, 2005, the Company also granted common shares to legal counsel, for the legal services rendered. The number of such stock grants has been set at 18,947 shares at the price of \$4.75 per share. Stock grants vest immediately. Expense in the amount of \$89,998 was recognized in the Consolidated Statements of Operations and Consolidated Balance Sheet.

During the quarter ended September 30, 2005 the Company granted restricted common shares to the Company's former co-chief executive officer and president for services rendered. He was granted 70,526 shares. The shares were valued at \$5.02 per share. The stock grants vested immediately. Compensation expense in the amount of \$354,041 was recognized in the Consolidated Statements of Operations and Consolidated Balance Sheet.

On February 1, 2006 the Company also granted common shares to the Company's former chief finance officer for the services rendered. He was granted 50,000 shares. The shares were valued at \$7.4 per share. The stock grants vested immediately. Compensation expense in the amount of \$370,000 was recognized in the Consolidated Statement of Operations and Consolidated Balance Sheet.

**Stock Options**

On July 18, 2005, the Company granted stock options to Company's directors and officers for the past services rendered. These options grant the directors and officers the right to purchase up to 779,730 shares of the Company's common stock at an exercise price of \$4.75 per share. The options expire five years from the date of grant. Granted options vest immediately. Compensation expense for options granted is determined based on their fair value at the time of grant, the cost of which in the amount of \$1,569,223 was recognized in the Consolidated Statements of Operations.

On July 18, 2005, the Company granted options to legal counsel, for the legal services rendered. These options grant legal counsel the right to purchase up to 41,053 shares of the Company's common stock at an exercise price of \$4.75 per share. The options expire five years from the date of grant. Granted options vest immediately. Expense for options granted is determined based on fair value of stocks at the time of grant, the cost of which, \$82,684, is recognized in the Consolidated Statements of Operations.

During the quarter ended June 30, 2005 the Company recognized additional compensation expense in the amount of \$133,112 in the Consolidated Statement of Income and Consolidated Balance Sheet for the options granted to its former corporate secretary for the 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 expire in five years from the date of grant. Granted options vest immediately.

On February 1, 2006 the Company granted stock options to former chief finance officer for the past services rendered. These options grant former chief finance officer the right to purchase up to 100,000 shares of the Company's common stock at an exercise price of \$7.4 per share. The options expire five years from the date of grant. Granted options vest immediately. Expense for options granted is determined based on fair value of stocks at the time of grant, the cost of which, \$391,795, is recognized in the Consolidated Statements of Operations.

**BMB MUNAI, INC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Stock options outstanding and exercisable as of March 31, 2006 are as follows:

|                             | <u>Number of<br/>Shares</u> | <u>Weighted Average<br/>Exercise<br/>Price</u> |
|-----------------------------|-----------------------------|--|
| <b>As of March 31, 2005</b> | <b>60,000</b>               | <b>\$ 4.00</b>                                 |
| Granted                     | 920,783                     | 5.04   |
| Exercised                   | -                           | -  |
| Expired                     | -                           | -  |
| <b>As of March 31, 2006</b> | <b>980,783</b>              | <b>\$ 4.97</b>                                 |

Additional information regarding outstanding options as of March 31, 2006 is as follows:

| <u>Options Outstanding</u>         |                |  |  | <u>Options Exercisable</u> |  |
|------------------------------------|----------------|--|--|----------------------------|--|
| <u>Range of<br/>Exercise Price</u> | <u>Options</u> | <u>Weighted<br/>Average<br/>Exercise Price</u> | <u>Weighted<br/>Average<br/>Contractual<br/>Life (years)</u> | <u>Options</u>             | <u>Weighted<br/>Average<br/>Exercise Price</u> |
| \$ 4.00 – \$<br>7.40               | 980,783        | \$4.97   | 5.00   | 980,783                    | \$4.97   |

**Warrants**

On April 12, 2005, the Company granted warrants to placement agents in connection with funds raised on the Company's behalf. These warrants grant 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. In October 2005, warrants to purchase 60,000 shares were exercised. These warrants have been offset to the proceeds as a cost of capital.

On December 31, 2005, the Company granted warrants to placement agents in connection with funds raised on the Company's behalf. These warrants grant 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. These warrants expire on June 30, 2007.

**BMB MUNAI, INC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Warrants outstanding and exercisable as of March 31, 2006 are as follows:

|                             | <u>Number of<br/>Shares</u> | <u>Weighted Average<br/>Exercise<br/>Price</u> |
|-----------------------------|-----------------------------|--|
| <b>As of March 31, 2005</b> | <b>1,084,341</b>            | <b>\$ 3.18</b>                                 |
| Granted                     | 1,026,767                   | 5.89   |
| Exercised                   | (902,514)                   | 3.19   |
| Expired                     | (98,970)                    | 2.50   |
| <b>As of March 31, 2006</b> | <b>1,109,624</b>            | <b>\$ 5.63</b>                                 |

Additional information regarding warrants outstanding as of March 31, 2006 is as follows:

| <u>Warrants Outstanding</u>        |                 |  |  | <u>Warrants Exercisable</u> |  |
|------------------------------------|-----------------|--|--|-----------------------------|--|
| <u>Range of<br/>Exercise Price</u> | <u>Warrants</u> | <u>Weighted<br/>Average<br/>Exercise Price</u> | <u>Weighted<br/>Average<br/>Contractual<br/>Life (years)</u> | <u>Warrants</u>             | <u>Weighted<br/>Average<br/>Exercise Price</u> |
| \$ 3.50 – \$<br>6.00               | 1,109,624       | \$5.63   | 1.93   | 1,109,624                   | \$5.63   |

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

|   | <u>Year ended<br/>March 31, 2006</u> | <u>Year ended<br/>March 31, 2005</u> |
|---|--------------------------------------|--------------------------------------|
| Risk-free interest rate   | 4.01% - 4.51%                        | 3.20%                                |
| Expected option life  | 2 – 4 year                           | 1 year                               |
| Expected volatility in the price of the Company's common shares             | 65% - 74%                            | 76%                                  |
| Expected dividends  | 0%                                   | 0%                                   |
| Weighted average fair value of options and warrants granted during the year | \$2.01 - \$3.92                      | \$ 2.22                              |

**18. 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 years ended March 31, 2006 and 2005 totaled to \$276,055 and \$218,428, respectively. One of our shareholders is an owner of Term Oil LLC.

During the years ended March 31, 2006 and 2005, the Company also retained the services of several companies. Expenses for those services totaled to \$119,720 and \$209,685, respectively. The suppliers which rendered services are affiliated with shareholders of the Company.



**19. 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 the total amount of \$5,994,200. When the Company applies for and is granted commercial production rights for the ADE Block, 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. Company must also comply with the terms of the work program associated with the contract, which includes the drilling of at least six additional new wells by July 9, 2007. The failure to make these 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, a lawsuit was filed in Florida naming the Company as one of the defendants. The claim 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 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 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 counsels to protect its interests. In the opinion of the Company's management and legal counsels, the resolution of those lawsuits will not have a material adverse effect on Company's financial condition, results of operations or cash flows.

In November 2005, we learned that the Company has been added as a defendant in a lawsuit filed by Bank CenterCredit against Optima Systems, LLP, KazOvoshProm Company, LLP and Intexi LLP and a number of other parties. The lawsuit was filed in the Special Interregional Economic Court of Almaty, Kazakhstan. Under Kazakh law, it is illegal for a party to purchase stock of a bank with borrowed funds. The lawsuit alleges that Optima Systems, KazOvoshProm Company and Intexi illegally purchased shares of Bank CenterCredit in open market transactions in the Kazakhstan Stock Market from a number of parties, including BMB Munai, with borrowed funds.

Bank CenterCredit has delivered a letter to the Company confirming that it has been joined in this matter to comply with the procedural requirements of Kazakh law. In the letter, the Bank CenterCredit acknowledges that the Company acted as a party to the transaction as a good faith seller of shares of the Bank CenterCredit. The Bank CenterCredit further acknowledges that the case has no property or material nature as it relates to BMB Munai. The Bank CenterCredit also guarantees to reimburse the Company for any expenses it may incur in connection with the litigation.

On June 13, 2006, we learned that the Special Interregional Economic Court of Almaty, Kazakhstan ruled that we had no liability in the lawsuit filed by Bank CenterCredit against Optima Systems, LLP, KazOvoshProm Company, LLP and Intexi LLP and others and dismissed us as a defendant in the lawsuit.

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.

**20. FINANCIAL INSTRUMENTS**

As of March 31, 2006 cash and cash equivalents included marketable securities of \$33,095,609 presented by discount bonds issued by General Electric Corporation and discount notes issued by Fannie Mae. As of March 31, 2005 marketable securities of \$788,921 were held in short term repurchase agreements for securities issued by Kazakhstan banks and Kazakhstan financial institutions. As of March 31, 2006 and 2005 cash and cash equivalents include deposits in Kazakhstan banks in the amount \$3,881,255 and \$9,090,276, respectively. As of March 31, 2006 and 2005 the Company made advance payments to Kazakhstan companies and government bodies in the amount \$2,473,985 and \$4,301,342, respectively. As of March 31, 2006 and 2005 trade accounts receivable of \$1,675,202 and \$132,400, respectively, are with the Kazakhstan companies. As of March 31, 2006 and 2005 restricted cash reflected in the long-term assets consists of \$156,454 and \$60,973, 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.

**21. SUBSEQUENT EVENTS**

Subsequent to the year ended March 31, 2006, a placement agent exercised stock warrants for 50,100 shares at the exercise price of \$5 per share.

Also, subsequent to the year ended March 31, 2006, a placement agent exercised stock warrants for 916,667 shares at the exercise price of \$6 per share.

In April 2006 the Company repaid its payables to PGS Reservoir Consultants in amount of \$ 500,000 as discussed in Note 13.

On June 20, 2006, Company's Board of Directors approved stock option grants and restricted stock awards to Company's officer and directors and certain employees and consultants of the Company under 2004 Stock Incentive Plan. The total number of options and restricted stock grants was 200,000 and 495,000, respectively. The options are exercisable at a price of \$7.00 per share, which was the closing price of the Company's common stock on the OTCBB on June 20, 2006. The restricted stock grants were also valued at \$7.00 per share. The options will expire three years from the grant date. All of the options and restricted stock grants vested immediately upon grant.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**22. SUPPLEMENTARY FINANCIAL INFORMATION ON OIL AND NATURAL GAS EXPLORATION DEVELOPMENT AND PRODUCTION ACTIVITIES (unaudited)**

This footnote provides unaudited information required by SFAS No. 69, "Disclosures about Oil and Natural Gas Producing Activities." The Company's oil and natural gas properties are located in the Republic of Kazakhstan, which constitutes one cost center.

**Capitalized Costs** - Capitalized costs and accumulated depletion, depreciation and amortization relating to our oil and natural gas producing activities, all of which are conducted in the Republic of Kazakhstan, are summarized below:

|  | <u>March 31, 2006</u> | <u>March 31, 2005</u> |
|--|-----------------------|-----------------------|
| Developed oil and natural gas properties             | \$ 68,079,938         | \$ 49,401,710         |
| Unevaluated oil and natural gas properties           | -                     | -                     |
| Accumulated depletion, depreciation and amortization | (1,396,641)           | (229,406)             |
| Net capitalized cost                                 | <u>\$ 66,683,297</u>  | <u>\$ 49,172,304</u>  |

**Costs Incurred** - Costs incurred in oil and natural gas property acquisition, exploration and development activities are summarized below:

|                        | <u>For the year ended<br/>March 31, 2006</u> | <u>For the year ended<br/>March 31, 2005</u> |
|------------------------|--|--|
| Acquisition costs:     |  |  |
| Unproved properties    | \$ -   | \$ -   |
| Proved properties      | -  | 19,075,000                                   |
| Exploration costs      | 3,453,603                                    | 713,220                                      |
| Development costs      | 14,368,323                                   | 16,687,432                                   |
| Subtotal               | <u>17,821,926</u>                            | <u>36,475,652</u>                            |
| Asset retirement costs | 856,302                                      | 60,973                                       |
| Total costs incurred   | <u>\$ 18,678,228</u>                         | <u>\$ 36,536,625</u>                         |

**Results of Operations** – Results of operations for the Company's oil and natural gas producing activities are summarized below:

|   | <u>For the year ended<br/>March 31, 2006</u> | <u>For the year ended<br/>March 31, 2005</u> |
|---|--|--|
| Oil and natural gas revenues                                | \$ 5,956,731                                 | \$ 973,646                                   |
| Operating expenses:   |  |  |
| Oil and natural gas operating expenses and ad valorem taxes | 829,514                                      | 404,626                                      |
| Accretion expense   | 5,602  | -  |
| Depletion expense   | 1,167,235                                    | 229,406                                      |
| Results of operations from oil and gas producing activities | <u>\$ 3,954,380</u>                          | <u>\$ 339,614</u>                            |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Reserves* – Proved reserves are estimated quantities of oil and natural gas, which geological and engineering data demonstrate with reasonable certainty to be, recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are proved reserves that can reasonably be expected to be recovered through existing wells with existing equipment and operating methods. Proved oil and natural gas reserve quantities and the related discounted future net cash flows before income taxes (see Standardized Measure) for the periods presented are based on estimates prepared by Chapman Petroleum Engineering Ltd., independent petroleum engineers. Such estimates have been prepared in accordance with guidelines established by the SEC.

The Company's net ownership in estimated quantities of proved oil reserves, and changes in net proved reserves, all of which are located in the Republic of Kazakhstan, are summarized below:

|   | <b>Oil, Condensate and Natural Gas Liquids</b> |  |
|---|--|--|
|   | <b>(MBbls)</b>                                 |  |
|   | <b>For the year ended<br/>March 31, 2006</b>   | <b>For the year ended<br/>March 31, 2005</b> |
| Proved developed and undeveloped reserves |  |  |
| Beginning of the year                     | 13,160,000                                     | -  |
| Revisions of previous estimates           | 830,522  | -  |
| Purchase of oil and gas properties        | -  | -  |
| Extensions and discoveries                | -  | 13,228,755                                   |
| Sales of properties                       | -  | -  |
| Production                                | (242,522)                                      | (68,755)                                     |
| End of year                               | <u>13,748,000</u>                              | <u>13,160,000</u>                            |
| Proved developed reserves at year end     | <u>11,168,000</u>                              | <u>10,580,000</u>                            |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Standardized Measure** – The Standardized Measure of Discounted Future Net Cash Flows relating to the Company's ownership interests in proved oil reserves for the year ended March 31, 2006 and 2005 is shown below:

|  | <b>For the year ended<br/>March 31, 2006</b> | <b>For the year ended<br/>March 31, 2005</b> |
|--|--|--|
| Future cash inflows                                      | \$ 493,223,000                               | \$ 274,607,000                               |
| Future oil and natural gas operating expenses            | 52,092,000                                   | 46,442,000                                   |
| Future development costs                                 | 6,800,000                                    | 7,750,000                                    |
| Future income tax expense                                | 199,113,000                                  | 134,848,000                                  |
| Future net cash flows                                    | 235,218,000                                  | 85,567,000                                   |
| 10% discount factor                                      | 132,573,000                                  | 58,046,000                                   |
| Standardized measure of discounted future net cash flows | <u>\$ 102,645,000</u>                        | <u>\$ 27,521,000</u>                         |

Our standardized measure of discounted future net cash flows relating to proved oil reserves was prepared in accordance with the provisions of SFAS 69. Future cash inflows are computed by applying year end prices of oil and natural gas to year end quantities of proved oil and natural gas reserves. Future oil and natural gas production and development costs are computed by estimating the expenditures to be incurred in producing and developing the proved oil and natural gas reserves at year end, based on year end costs and assuming continuation of existing economic condition.

Future income tax expenses are calculated by applying appropriate year end tax rates to future pre-tax net cash flows relating to proved oil and natural gas reserves, less the tax basis of properties involved. Future income tax expenses give effect to permanent differences, tax credits and loss carryforwards relating to the proved oil and natural gas reserves. Future net cash flows are discounted at a rate of 10% annually to derive the standardized measure of discounted future net cash flows. The Standardized Measure of Discounted Future Net Cash Flows is not intended to represent the replacement cost or fair market value of the Company's oil and natural gas properties.

**BMB MUNAI, INC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Changes in Standardized Measure* – Changes in Standardized Measure of Discounted Future Net Cash Flows relating to proved oil reserves are summarized below:

|   | <b>For the year ended<br/>March 31, 2006</b> | <b>For the year ended<br/>March 31, 2005</b> |
|---|--|--|
| Changes due to current year operations:                                     |  |  |
| Sales of oil and natural gas, net of oil and natural gas operating expenses | \$ (5,127,217)                               | \$ (569,020)                                 |
| Sales of oil and natural gas properties                                     | -  | -  |
| Purchase of oil and gas properties  | -  | -  |
| Extensions and discoveries  | -  | 77,847,020                                   |
| Net change in sales and transfer prices, net of production costs            | 67,650,993                                   | -  |
| Changes due to revisions of standardized variables                          | -  | -  |
| Prices and operating expenses   | -  | -  |
| Revisions to previous quantity estimates                                    | 9,199,160                                    | -  |
| Estimated future development costs  | 409,194                                      | -  |
| Income taxes  | (34,678,000)                                 | (49,757,000)                                 |
| Accretion of discount   | 2,752,100                                    | -  |
| Production rates (timing)   | 25,929,078                                   | -  |
| Other   | 8,988,692                                    | -  |
| Net Change  | <u>75,124,000</u>                            | <u>27,521,000</u>                            |
| Beginning of year   | <u>27,521,000</u>                            | <u>-</u>                                     |
| End of year   | <u>\$ 102,645,000</u>                        | <u>\$ 27,521,000</u>                         |

Sales of oil and natural gas, net of oil and natural gas operating expenses are based on historical pre-tax results. Sales of oil and natural gas properties, extensions and discoveries, purchases of minerals in place and the changes due to revisions in standardized variables are reported on a pre-tax discounted basis, while the accretion of discount is presented on an after tax basis.

**EXHIBIT 21.1**

**LIST OF SUBSIDIARIES**

Listed below are our subsidiaries, our percentage ownership in each subsidiary and the total number of active subsidiaries directly or indirectly owned by each subsidiary as of March 31, 2006.

|                           | <u>% Ownership</u> | <u>U.S.</u> | <u>Non-U.S.</u> |
|---------------------------|--------------------|-------------|-----------------|
| Emir Oil, LLP, Kazakhstan | 100%               | --          | -               |



**EXHIBIT 23.1**

**CONSENT OF CHAPMAN PETROLEUM ENGINEERING, LTD  
INDEPENDENT PETROLEUM ENGINEERS**

We consent to the reference to our firm and to the reference to our "Reserve and Economic Evaluation Oil and Gas Properties" dated April 1, 2006 in the amended Annual Report (Form 10-KSB/A-1), of BMB Munai, Inc.

/s/ Chapman Petroleum Engineering, Ltd.

Chapman Petroleum Engineering, Ltd.  
Calgary, Alberta, Canada  
January 7, 2008

**EXHIBIT 23.2**

**CONSENT OF BDO KAZAKHSTANAUDIT LLP.  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors  
BMB Munai, Inc.  
202 Dostyk Ave. 4<sup>th</sup> floor, Almaty  
Kazakhstan 050051**

We hereby consent to the incorporation by reference in the First Amendment to the Registration Statement on Form S-3/A filed with the Securities and Exchange Commission on October 25, 2007 of our report dated June 26, 2006, relating to the consolidated financial statements of BMB Munai, Inc. for the years ended March 31, 2006 and March 31, 2005, which appears in this Amended Annual Report on Form 10-KSB/A-1 of BMB Munai, Inc. for the year ended March 31, 2006.

We also consent to the reference to us in the “Experts” section of the Prospectus.

**Managing partner,  
General Director  
BDO Kazakhstanaudit LLP**

**S.Kh. Koshkimbayev**

Almaty, Kazakhstan  
January 4, 2008

**EXHIBIT 31.1**

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

I, Gamal Kulumbetov, certify that:

1. I have reviewed this report on Form 10-KSB/A-1 of BMB Munai, Inc.
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) 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)) for the small business issuer 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 small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) evaluated the effectiveness of the small business issuer'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 report based on such evaluation; and
  - (c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal controls over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer'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 small business issuer's internal control over financial reporting.

Date: January 4, 2008

By: /s/ Gamal Kulumbetov  
Gamal Kulumbetov  
Chief 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 report on Form 10-KSB/A-1 of BMB Munai, Inc.

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) 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)) for the small business issuer 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 small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) evaluated the effectiveness of the small business issuer'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 report based on such evaluation; and
- (c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal controls over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

- (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer'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 small business issuer's internal control over financial reporting.

Date: January 4, 2008

By: /s/ Sanat Kasymov  
Sanat Kasymov  
Chief Financial Officer

**EXHIBIT 32.1**

**CERTIFICATION 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 Amended Annual Report of BMB Munai, Inc. (the "Company") on Form 10-KSB/A-1 for the period ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), I, Gamal Kulumbetov, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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: January 4, 2008

/s/ Gamal Kulumbetov

Gamal Kulumbetov  
Chief Executive Officer

**EXHIBIT 32.2**

**CERTIFICATION 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 Amended Annual Report of BMB Munai, Inc. (the "Company") on Form 10-KSB/A-1 for the period ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), I, Sanat Kasymov, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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: January 4, 2008

/s/ Sanat Kasymov

Sanat Kasymov  
Chief Financial Officer