

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended December 31, 2007

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From _____ to _____

Commission File Number 001-33034

BMB MUNAL, 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

(Address of principal executive offices)

050051

(Zip Code)

+7 (3272) 375-125

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for any shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes No

As of February 4, 2008, the registrant had 44,690,657 shares of common stock, par value \$0.001, issued and outstanding.

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

PART I — FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements

| | <u>Page</u> |
|---|-------------|
| Consolidated Balance Sheets as of December 31, 2007 and March 31, 2007 | 3 |
| Consolidated Statements of Operations for the Three and Nine Months Ended December 31, 2007 and 2006 | 4 |
| Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2007 and 2006 | 5 |
| Notes to Consolidated Financial Statements | 7 |

**Item 2. Management's Discussion and Analysis of Financial Condition
and Results of Operations** 29

Item 3. Qualitative and Quantitative Disclosures About Market Risk 47

Item 4. Controls and Procedures 47

PART II — OTHER INFORMATION

Item 1. Legal Proceedings 48

Item 1A. Risk Factors 48

Item 6. Exhibits 48

Signatures 49

PART I - FINANCIAL INFORMATION
Item 1 - Unaudited Consolidated Financial Statements
BMB MUNAI, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | Notes | December 31, 2007 | March 31, 2007 |
|---|-------|------------------------------|------------------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 3 | \$ 32,186,929 | \$ 12,172,940 |
| Inventories | 4 | 9,985,056 | 10,334,696 |
| Trade accounts receivable | | 6,284,904 | 3,994,662 |
| Prepayments for materials | | 8,804,777 | 1,409,213 |
| Prepaid expenses and other assets, net | 5 | 5,902,491 | 2,060,024 |
| Total current assets | | <u>63,164,157</u> | <u>29,971,535</u> |
| LONG TERM ASSETS | | | |
| Oil and gas properties, full cost method, net | 6 | 158,684,037 | 104,187,568 |
| Construction in progress | 7 | 6,480,615 | 4,463,063 |
| Long term VAT recoverable | 8 | 6,686,660 | 4,351,059 |
| Convertible notes issue costs | | 3,437,680 | - |
| Other fixed assets, net | 9 | 2,903,566 | 1,519,123 |
| Restricted cash | | 622,697 | 303,697 |
| Total long term assets | | <u>178,815,255</u> | <u>114,824,510</u> |
| TOTAL ASSETS | | <u>\$ 241,979,412</u> | <u>\$ 144,796,045</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | | 18,301,004 | \$ 8,542,052 |
| Accrued coupon on convertible notes | 10 | 1,391,667 | - |
| Taxes payable | | 833,898 | 324,053 |
| Accrued liabilities and other payables | | 278,147 | 254,194 |
| Total current liabilities | | <u>20,804,716</u> | <u>9,120,299</u> |
| LONG TERM LIABILITIES | | | |
| Convertible notes payable | 10 | 60,348,197 | - |
| Deferred taxes | | 15,370,129 | 7,948,297 |
| Liquidation fund | 11 | 2,839,548 | 2,165,829 |
| Total long term liabilities | | <u>78,557,874</u> | <u>10,114,126</u> |
| COMMITMENTS AND CONTINGENCIES | 16 | - | - |
| SHAREHOLDERS' EQUITY | | | |
| Preferred stock - \$0.001 par value; 20,000,000 shares authorized; no shares issued or outstanding | 12 | - | - |
| Common stock - \$0.001 par value; 500,000,000 shares authorized; 44,690,657 and 44,690,657 shares outstanding, respectively | 12 | 44,691 | 44,691 |
| Additional paid in capital | 12 | 135,452,736 | 133,721,865 |
| Retained earnings / (Accumulated deficit) | | 7,119,395 | (8,204,936) |
| Total shareholders' equity | | <u>142,616,822</u> | <u>125,561,620</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | <u>\$ 241,979,412</u> | <u>\$ 144,796,045</u> |

See notes to the unaudited consolidated financial statements.

BMB MUNAI, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

| | Notes | Three months ended December 31, | | Nine months ended December 31, | |
|--|-------|---------------------------------|--------------------|--------------------------------|-----------------------|
| | | 2007 | 2006 | 2007 | 2006 |
| REVENUES | 13 | \$ 16,832,612 | \$ 2,214,382 | \$ 41,177,967 | \$ 8,577,326 |
| COSTS AND OPERATING EXPENSES | | | | | |
| Oil and gas operating | | 1,538,143 | 360,905 | 3,768,513 | 1,351,478 |
| General and administrative | | 3,988,250 | 1,705,166 | 10,954,205 | 9,028,108 |
| Depletion | | 1,716,899 | 323,062 | 4,223,854 | 991,030 |
| Amortization and depreciation | | 62,850 | 44,726 | 175,069 | 121,237 |
| Accretion expenses | | 70,235 | 56,177 | 162,594 | 120,235 |
| Total costs and operating expenses | | <u>7,376,377</u> | <u>2,490,036</u> | <u>19,284,235</u> | <u>11,612,088</u> |
| INCOME / (LOSS) FROM OPERATIONS | | 9,456,235 | (275,654) | 21,893,732 | (3,034,762) |
| OTHER INCOME (EXPENSE) | | | | | |
| Foreign exchange gain / (loss), net | | 79,774 | (42,487) | 2,224 | (116,750) |
| Interest income, net | | 421,090 | 330,529 | 1,060,480 | 1,335,258 |
| Other expense, net | | <u>(101,037)</u> | <u>(103,249)</u> | <u>(210,273)</u> | <u>(223,503)</u> |
| Total other income | | <u>399,827</u> | <u>184,793</u> | <u>852,431</u> | <u>995,005</u> |
| INCOME / (LOSS) BEFORE INCOME TAXES | | 9,856,062 | (90,861) | 22,746,163 | (2,039,757) |
| INCOME TAX EXPENSE | | (3,351,061) | - | (7,421,832) | (175,513) |
| NET INCOME / (LOSS) | | <u>\$ 6,505,001</u> | <u>\$ (90,861)</u> | <u>\$ 15,324,331</u> | <u>\$ (2,215,270)</u> |
| BASIC NET INCOME/(LOSS) PER COMMON SHARE | 14 | \$ 0.14 | \$ - | \$ 0.34 | \$ (0.05) |
| DILUTED NET INCOME/(LOSS) PER COMMON SHARE | 14 | \$ 0.14 | \$ - | \$ 0.34 | \$ (0.05) |

See notes to the unaudited consolidated financial statements.

BMB MUNAI, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| For the Nine Months Ended December 31, | 2007 | 2006 |
|--|-----------------------------|-----------------------------|
| | Notes | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income/(loss) | \$ 15,324,331 | \$ (2,215,270) |
| Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities: | | |
| Depletion | 6 4,223,854 | 991,030 |
| Depreciation and amortization | 175,069 | 121,237 |
| Accretion expenses | 11 162,594 | 120,235 |
| Stock based compensation expense | 12 1,479,804 | 3,605,946 |
| Stock issued for services | 12 251,067 | 455,000 |
| Income taxes | 7,421,832 | 175,513 |
| Loss on disposal of fixed assets | 57,185 | 14,953 |
| Changes in operating assets and liabilities: | | |
| (Increase)/decrease in trade accounts receivable | (2,290,242) | 640,400 |
| Decrease/(increase) in inventories | 349,640 | (5,871,646) |
| Increase in prepaid expenses and other assets | (11,238,031) | (2,797,965) |
| Increase in VAT recoverable | (2,335,601) | (2,049,458) |
| Increase in current liabilities | 10,292,750 | 2,909,399 |
| Net cash provided by / (used in) operating activities | <u>23,874,252</u> | <u>(3,900,626)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of oil and gas properties | 6 (55,974,252) | (27,412,450) |
| Acquisition of other fixed assets | (1,760,222) | (645,582) |
| Increase in construction in progress | 7 (2,017,552) | (3,347,529) |
| Increase in restricted cash | (319,000) | (147,243) |
| Net cash used in investing activities | <u>(60,071,026)</u> | <u>(31,552,804)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of convertible debt | 10 56,210,763 | - |
| Proceeds from exercise of common stock options and warrants | - | 5,758,502 |
| Net cash provided by financing activities | <u>56,210,763</u> | <u>5,758,502</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 20,013,989 | (29,694,928) |
| CASH AND CASH EQUIVALENTS at beginning of period | <u>12,172,940</u> | <u>51,141,732</u> |
| CASH AND CASH EQUIVALENTS at end of period | <u>\$ 32,186,929</u> | <u>\$ 21,446,804</u> |

BMB MUNAI, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(CONTINUED)**

| For the Nine Months Ended December 31, | | 2007 | 2006 |
|--|--------------|-------------------|-------------|
| | Notes | | |
| Non-Cash Investing and Financing Activities | | | |
| Asset retirement obligation incurred in property development | 11 | \$ 511,125 | \$ - |
| Accrued coupon on convertible notes incurred in property development | 10 | 1,391,667 | - |
| Accretion of discount on convertible notes incurred in property development | 10 | 348,197 | - |
| Amortization of convertible notes issue costs incurred in property development | | <u>\$ 351,557</u> | <u>\$ -</u> |

See notes to the unaudited consolidated financial statements.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 1 - DESCRIPTION OF BUSINESS

The corporation now known as BMB Munai, Inc., ("BMB Munai" or the "Company") was originally incorporated in Utah in July 1981. On February 7, 1994, the corporation changed its name to InterUnion Financial Corporation ("InterUnion") and its domicile to Delaware. BMB Holding, Inc. ("BMB Holding") was incorporated on May 6, 2003 for the purpose of acquiring and developing oil and gas fields in the Republic of Kazakhstan. On November 26, 2003, InterUnion executed an Agreement and Plan of Merger (the "Agreement") with BMB Holding. As a result of the merger, the shareholders of BMB Holding obtained control of the corporation. BMB Holding 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 and the name of the corporation was changed to BMB Munai, Inc.

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

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

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

BMB Munai 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. BMB Munai carries out its activities in Kazakhstan through its wholly-owned subsidiary Emir Oil LLP. Emir Oil LLP is the operator of the Aksaz, Dolinnoe and Emir oil and gas fields in western Kazakhstan (the "ADE Block", the "ADE Fields"). The Government of the Republic of Kazakhstan (the "Government") initially issued the license to Zhanaozen Repair and Mechanical Plant on April 30, 1999. On June 9, 2000, the contract for exploration of the Aksaz, Dolinnoe and Emir oil and gas fields was entered into between the Agency of the Republic of Kazakhstan on Investments and the Zhanaozen Repair and Mechanical Plant. On September 23, 2002, the contract was assigned to Emir Oil LLP. On September 10, 2004 the Government extended the term of the Contract for exploration and the license from five years to seven years through July 9, 2007. On February 27, 2007, the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan ("MEMR") granted a second extension of Company's exploration contract. Under the terms of the contract extension, the exploration period for the entire exploration contract territory was extended to July 2009. 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.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

To move from the exploration and development stage to the commercial production stage, the Company must apply for and be granted a commercial production contract. The Company has the exclusive right to negotiate for a commercial production contract, and the Government is obligated to conduct these negotiations in accordance with the Law of Petroleum in Kazakhstan. If the Company does not receive a commercial production contract, it has the right to produce and sell oil, including export oil, under the Law of Petroleum for the term of its existing contract.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial information included herein is unaudited, except for the balance sheet as of March 31, 2007, which is derived from the Company's audited consolidated financial statements for the year ended March 31, 2007. However, such information includes all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim periods. The consolidated results of operations for the interim period are not necessarily indicative of the consolidated results to be expected for an entire year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted in this Quarterly Report on Form 10-Q pursuant to certain rules and regulations of the Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our Annual Report for the year ended March 31, 2007 on Form 10-K, as amended.

The accounting principles applied are consistent with those as set out in the Company's annual Consolidated Financial Statements for the year ended March 31, 2007.

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.

Use of estimates

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

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 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 Statements of Operations.

The Company has a stock option plan as described in Note 12. 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 improve as additional pipelines and rail-related infrastructure is built that will increase transportation capacity to the world markets.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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, collectability is reasonably assured, delivery of oil has occurred or when ownership title transfers. 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, money market accounts and marketable securities 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.

Prepaid expenses and other assets

Prepaid expenses and other assets are stated at their net realizable values after deducting provisions for uncollectible amounts. Such provisions reflect either specific cases or estimates based on evidence of collectability. The fair value of prepaid expense and other asset 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.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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. The Company has assessed its inventory at December 31, 2007.

No provision for obsolete inventory has been provided.

Oil and gas properties

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

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

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

All geological and geophysical studies, with respect to the licensed territory, 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.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

Liquidation fund

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

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

| | |
|----------------------------|------------|
| Buildings and improvements | 7-10 years |
| Machinery and equipment | 6-10 years |
| Vehicles | 3-5 years |
| Office equipment | 3-5 years |
| Software | 3-4 years |
| Furniture and fixtures | 2-7 years |

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

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

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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.

Functional currency

The Company makes its principal investing and financing transactions in United States Dollars. Therefore, the United States Dollar is its functional currency.

Concentrations of credit risk and accounts receivable

The Company exports nearly all of its test production for sale in the world market. Currently, all of the production the Company exports is being sold to one client, Euro-Asian Oil AG. 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. Nearly all of the Company's accounts receivable are from Euro-Asian Oil AG. Oil sales are unsecured, however, the Company has not had any credit losses in the past and believes its accounts receivable are fully collectible. Accordingly, no allowance for doubtful accounts has been provided.

Convertible notes payable issue costs

In accordance with the Accounting Principles Board Opinion 21 "*Interest on Receivables and Payables*", the Company recognizes convertible notes payable issue costs on the balance sheet as deferred charges, and amortizes the balance over the term of the related debt. The Company follows the guidance in the EITF 95-13 "*Classification of Debt Issue Costs in the Statement of Cash Flows*" and classifies cash payments for bond issue costs as a financing activity.

Income per common share

Basic income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted income per share reflects the potential dilution that could occur if all contracts to issue common stock were converted into common stock, except for those that are anti-dilutive.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

Recent accounting pronouncements

In December 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements." This Statement requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of income; changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value; entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This Statement is effective for financial statements issued for the fiscal years beginning after December 15, 2008. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

In December 2007, the FASB issued a revision of Statement No. 141, "Business Combinations." This Statement establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement applies prospectively to business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning after December 15, 2008. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

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

In February 2007, the FASB issued Statement No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*". This Statement permits entities to choose to measure many

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This Statement is effective for financial statements issued for the fiscal years beginning after November 15, 2007. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

NOTE 3 - CASH AND CASH EQUIVALENTS

As of December 31, 2007 and March 31, 2007 cash and cash equivalents included:

| | <u>December 31, 2007</u> | <u>March 31, 2007</u> |
|------------------|--------------------------|-----------------------|
| US Dollars | \$ 31,972,486 | \$ 8,577,949 |
| Foreign currency | 214,443 | 3,594,991 |
| | <u>\$ 32,186,929</u> | <u>\$ 12,172,940</u> |

As of December 31, 2007 cash and cash equivalents included the amount of \$29,541,409 placed in money market funds having a 30 day simple yield of 4.23%.

As of March 31, 2007 cash and cash equivalents included the amount of \$7,702,483 placed in money market funds having a 30 day simple yield of 4.99%.

As of December 31, 2007 and March 31, 2007 cash and cash equivalents included the amounts of \$0 and \$292,679, respectively, presented by letters of credit opened for the purpose of purchasing production equipment.

NOTE 4 - INVENTORIES

Inventories as of December 31, 2007 and March 31, 2007 were as follows:

| | <u>December 31, 2007</u> | <u>March 31, 2007</u> |
|-----------------------|--------------------------|-----------------------|
| Construction material | \$9,530,984 | \$ 10,051,888 |
| Spare parts | 33,494 | 31,804 |
| Crude oil produced | 5,486 | 4,810 |
| Other | 415,092 | 246,194 |
| | <u>\$ 9,985,056</u> | <u>\$ 10,334,696</u> |

BMB MUNAI, INC.**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007****NOTE 5 - PREPAID EXPENSES AND OTHER ASSETS**

Prepaid expenses and other assets as of December 31, 2007 and March 31, 2007 were as follows:

| | <u>December 31, 2007</u> | <u>March 31, 2007</u> |
|---|----------------------------|----------------------------|
| Advances for services | \$ 5,935,048 | \$ 2,016,177 |
| Other | 178,918 | 255,322 |
| Reserves against uncollectible advances and prepayments | (211,475) | (211,475) |
| | <u>\$ 5,902,491</u> | <u>\$ 2,060,024</u> |

NOTE 6 - OIL AND GAS PROPERTIES

Oil and gas properties using the full cost method as of December 31, 2007 and March 31, 2007 were as follows:

| | <u>December 31, 2007</u> | <u>March 31, 2007</u> |
|--|------------------------------|------------------------------|
| Cost of drilling wells | \$ 57,886,873 | \$ 33,263,035 |
| Professional services received in exploration and development activities | 35,712,446 | 21,187,753 |
| Material and fuel used in exploration and development activities | 26,992,490 | 16,417,280 |
| Subsoil use rights | 20,788,119 | 20,788,119 |
| Deferred tax | 7,219,219 | 7,219,219 |
| Geological and geophysical | 4,559,510 | 2,803,215 |
| Infrastructure development costs | 2,035,457 | 1,753,222 |
| Accrued interest, accreted discount and amortised bond issue costs on convertible notes issued | 2,091,421 | - |
| Other capitalized costs | 9,025,831 | 4,159,200 |
| Accumulated depletion | (7,627,329) | (3,403,475) |
| | <u>\$ 158,684,037</u> | <u>\$ 104,187,568</u> |

NOTE 7 - CONSTRUCTION IN PROGRESS

On April 13, 2006 the Company entered into an Agreement of Joint Business (the "Agreement") with Ecotechnic Chemicals AG incorporated in Switzerland ("Ecotechnic") for construction of a facility within the Company's licensed territory, for the utilization of associated gas on the Company's fields (the "Facility"). Once the construction of the Facility is completed, the Company and Ecotechnic will sign as agreement for the formation of a joint venture company to operate the Facility.

In accordance with terms of the Agreement the Company has made payments of USD \$6,480,615 for development of project documentation, purchase of equipment, transportation and customs and construction of a gas pipeline.

BMB MUNAI, INC.**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007****NOTE 8 - LONG TERM VAT RECOVERABLE**

As of December 31, 2007 and March 31, 2007 the Company had long term VAT recoverable in the amount of \$6,686,660 and \$4,351,059, respectively. The VAT recoverable is a Tenge denominated asset due from the Republic of Kazakhstan. The VAT recoverable consists of VAT paid on local expenditures and imported goods. VAT charged to the Company is recoverable in future periods as either cash refunds or offsets against the Company's fiscal obligations, including future income tax liabilities. Management believes that this asset will not be realized in the current year because in order to return funds or offset this tax with other taxes a tax examination must be performed by local Kazakhstan tax authorities. This examination is not expected to be completed during the current fiscal year.

NOTE 9 - OTHER FIXED ASSETS

| | Buildings and improvements | Machinery and equipment | Vehicles | Office equipment | Furniture and fixtures | Software | Total |
|--|---------------------------------------|--|-------------------|-----------------------------|---------------------------------------|-----------------|---------------------|
| Cost | | | | | | | |
| at March 31, 2007 | \$ 326,251 | \$ 551,366 | \$ 679,193 | \$ 277,797 | \$ 201,833 | 80,920 | \$ 2,117,360 |
| Additions | 258,421 | 803,284 | 516,126 | 66,776 | 40,691 | 74,924 | 1,760,222 |
| Disposals | - | 11,002 | 53,121 | 8,608 | 3,991 | - | 76,722 |
| at December 31, 2007 | <u>584,672</u> | <u>1,343,648</u> | <u>1,142,198</u> | <u>335,965</u> | <u>238,533</u> | <u>155,844</u> | <u>3,800,860</u> |
| Accumulated depreciation | | | | | | | |
| at March 31, 2007 | 50,146 | 60,327 | 259,808 | 116,817 | 58,546 | 52,593 | 598,237 |
| Charge for the period | 22,907 | 86,764 | 101,351 | 53,920 | 43,914 | 9,738 | 318,594 |
| Disposals | - | 44 | 10,244 | 6,986 | 2,263 | - | 19,537 |
| at December 31, 2007 | <u>73,053</u> | <u>147,047</u> | <u>350,915</u> | <u>163,751</u> | <u>100,197</u> | <u>62,331</u> | <u>897,294</u> |
| Net book value at March 31, 2007 | <u>\$ 276,105</u> | <u>\$ 491,039</u> | <u>\$ 419,385</u> | <u>\$ 160,980</u> | <u>\$ 143,287</u> | <u>28,327</u> | <u>\$ 1,519,123</u> |
| Net book value at December 31, 2007 | <u>\$ 511,619</u> | <u>\$ 1,196,601</u> | <u>\$ 791,283</u> | <u>\$ 172,214</u> | <u>\$ 138,336</u> | <u>93,513</u> | <u>\$ 2,903,566</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 \$143,525 was capitalized to oil and gas properties for the year ended March 31, 2007.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 10 - CONVERTIBLE NOTES PAYABLE

On July 13, 2007 the Company completed the private placement of US\$60 million in principal amount of 5.0% convertible senior notes due 2012 ("Notes") to non-U.S. persons outside of the United States in accordance with Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act") and in compliance with the laws and regulations applicable in each country where the placement took place.

The Notes have a yield to maturity of 6.25%. Interest will be paid at a rate of 5.0% per annum on the principal amount, payable semiannually in arrears on January 13 and July 13 of each year.

The Notes are convertible into the Company's common shares. The initial conversion price was set at US\$ 7.2094 per share, subject to customary adjustments in certain circumstances, including but not limited to, changes of control and certain future equity financings. If the conversion price is adjusted pursuant to the conversion provisions, the conversion price shall not be adjusted below U.S. \$6.95, provided that if the conversion price is adjusted due to (1) the payment of a dividend; (2) a bonus issue; (3) a consolidation or subdivision of the shares; (4) the issuance of shares, share-related securities, rights in respect of shares or rights in respect of share-related securities to all or substantially all of the shareholders as a class; (5) the issuance of other securities to substantially all shareholders as a class; or (6) other arrangements to acquire securities, then the minimum conversion price will be adjusted at the same time by the same proportion.

A change of control event occurs if an offer in respect of the Company's common shares, for which the consideration is or can be received wholly or substantially in cash, has become or been declared unconditional in all respects and the Company becomes aware that the right to cast more than 50% of the votes which may ordinarily be cast at a general meeting of the shareholders has or will become unconditionally vested in the offeror and/or any associate(s) of the offeror, or an event occurs which has a like or similar effect. If a change of control event occurs, the conversion price in respect of a conversion date that occurs after the date on which notice of such change in control event is given by the Company, but on or prior to the 60th day following the date of such notice, shall become the product of (1) the conversion price that would otherwise apply on such conversion date in the absence of a change of control event and (2) the percentage determined in accordance with the following:

| <u>Conversion Date</u> | <u>Percentage</u> |
|--|-------------------|
| On or before July 13, 2008 | 81.6 |
| Thereafter, but on or before July 13, 2009 | 86.2 |
| Thereafter, but on or before July 13, 2010 | 90.9 |
| Thereafter, but on or before July 13, 2011 | 95.5 |
| Thereafter, and until Maturity Date | 100.0 |

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

If a holder of notes shall convert its notes following the date on which notice of a change in control event is given by us but on or prior to the 60th day following the date of such notice, then we shall pay to such holder the following U.S. Dollar amounts per U.S. Dollar of notes held by the holder that are to be so converted.

| <u>Conversion Date</u> | <u>Amount</u> |
|--|---------------|
| On or before July 13, 2008 | \$0.12239 |
| Thereafter, but on or before July 13, 2009 | \$0.07246 |
| Thereafter, but on or before July 13, 2010 | \$0.02250 |
| Thereafter, but on or before July 13, 2011 | \$0 |
| Thereafter, and until Maturity Date | \$0 |

The Notes are callable after three years at a price equal to 104% of the principal amount thereof plus any accrued and unpaid interest to the date fixed for redemption, subject to the price of the Company's common stock trading at least 30% above the conversion price. Holders of the Notes will have the right to require the Company to redeem all or a portion of their Notes on July 13, 2010 at a price equal to 104% of the principal amount thereof plus any accrued and unpaid interest to the date fixed for redemption. Unless previously redeemed, converted or purchased and cancelled, the Notes will be redeemed by the Company at a price equal to 107.2% of the principal amount thereof on July 13, 2012. The Notes constitute direct, unsubordinated and unsecured, interest bearing obligations of the Company.

The Company is using the net proceeds from the issuance of the Notes for further exploration and development of the Company's oil and gas drilling and production activities in western Kazakhstan.

The Company granted a registration right to the Noteholders. The Company agreed to file, pursue to effectiveness and maintain effective a registration statement (a "Shelf Registration Statement") in respect of the Notes and the underlying shares of common stock issuable upon the conversion of the Notes (collectively, the "Covered Securities"), until such time as all Covered Securities:

- have been effectively registered under the Securities Act and disposed of in accordance with the registration statement relating thereto;
- may be resold without restriction pursuant to Rule 144(k) under the Securities Act or any successor provision thereto;

BMB MUNAI, INC.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

- (A) are not subject to the restrictions imposed by Rule 903(b)(3)(iii) under the Securities Act or any successor provision thereto and (B) may be resold pursuant to Rule 144 under the Securities Act or any successor provision thereto without being subject to the restrictions imposed by paragraphs (e), (f) and (h) of Rule 144 under the Securities Act or any successor provisions thereto; provided that the requirements set forth in paragraph (c) of Rule 144 under the Securities Act or any successor provision thereto are met as of such date; or
- have been publicly sold pursuant to Rule 144 under the Securities Act or any successor provision thereto.

The Company timely filed a Shelf Registration Statement with the U.S. Securities and Exchange Commission ("SEC"). The Shelf Registration Statement was declared effective by the SEC on January 25, 2008.

As of December 31, 2007 the Company accrued interest in the amount of \$1,391,667, relating to the convertible notes outstanding. The Company also amortized the discount on the convertible notes (difference between the redemption amount and the carrying amount as of the date of issue) in the amount of \$348,197 as of December 31, 2007. The carrying value of convertible notes will be accreted to the redemption value of \$64,323,785.

As of December 31, 2007 and March 31, 2007 the convertible notes payable amount is presented as follows:

| | <u>December 31, 2007</u> | <u>March 31, 2007</u> |
|------------------------------------|--------------------------|-----------------------|
| Convertible notes redemption value | \$ 64,323,785 | \$ - |
| Unamortized discount | (3,975,588) | - |
| | <u>\$ 60,348,197</u> | <u>\$ -</u> |

In accordance with SFAS No. 34, *Capitalization of Interest* and FIN 33, *Applying FASB Statement No. 34 to Oil and Gas Producing Operations Accounted for by the Full Cost Method and Interpretation of FASB Statement No. 34*, accrued interest expense in the amount of \$1,391,667 and accretion expense relating to the discount on convertible notes (difference between the redemption amount and the carrying amount as of the date of issue) in the amount of \$348,197, was capitalized to oil and gas properties for the quarter ended December 31, 2007.

BMB MUNAI, INC.**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007****NOTE 11 - LIQUIDATION FUND**

Reconciliation of the Liquidation Fund (Asset Retirement Obligation) at December 31, 2007 is as follows:

| | Total |
|----------------------|---------------------|
| At March 31, 2007 | \$ 2,165,829 |
| Accrual of liability | 511,125 |
| Accretion expenses | 162,594 |
| At December 31, 2007 | \$ 2,839,548 |

Management believes that the liquidation fund should be accrued for future abandonment costs of 14 wells located in the Aksaz, Dolinnoe, Emir and Kariman oil fields. Management believes that these obligations are likely to be settled at the end of the production phase at these oil fields.

At December 31, 2007, undiscounted expected future cash flows that will be required to satisfy the Company's obligation by 2009 for the Aksaz, Dolinnoe, Emir and Kariman oilfields, respectively, are \$3,298,872. After application of a 10% discount rate, the present value of the Company's liability at December 31, 2007 and March 31, 2007, is \$2,839,548 and \$2,165,829, respectively.

NOTE 12 - SHARE AND ADDITIONAL PAID IN CAPITAL

Common and preferred stock as of December 31, 2007 and March 31, 2007 were as follows:

| | December 31, 2007 | March 31, 2007 |
|---|--------------------------|-----------------------|
| Preferred stock, \$0.001 par value | | |
| Authorized | 20,000,000 | 20,000,000 |
| Issued and outstanding | - | - |
| Common stock, \$0.001 par value | | |
| Authorized | 500,000,000 | 500,000,000 |
| Issued and outstanding | 44,690,657 | 44,690,657 |

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

Share-Based Compensation

During the fiscal year ended March 31, 2005 the shareholders of the Company approved an incentive stock option plan (the "Plan") under which directors, officers and key personnel may be granted options to purchase common shares of the Company, as well as other stock based awards. 5,000,000 common shares were reserved for issuance under the Plan. The Board determines the terms of options and other awards made under the Plan. Under the terms of the Plan, no incentive stock options shall be granted with an exercise price at a discount to the market.

Common Stock

On July 18, 2005, the Company granted 90,000 restricted common shares to three Company employees. Each employee's stock grant vests in three equal tranches of 10,000 shares on the first, second and third anniversaries of his employment with the Company. 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 \$9,068 has been recognized in the Consolidated Statement of Operations and Consolidated Balance Sheet for the quarter ended December 31, 2007.

As of December 31, 2007 there was \$4,318 of total unrecognized compensation expense related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 0.25 years.

On March 30, 2007, the Company granted common stock to officers, employees and outside consultants of the Company under the Plan. The total number of restricted common shares granted was 950,000. The restricted stock grants were valued at \$5.38 per share. The restricted stock grants were awarded on the same terms and subject to same vesting requirements. The restricted stock grants will vest to the grantees at such time as either of the following events occurs (the "Vesting Events"): i) the Company enters commercial production and is granted a commercial production license from the Republic of Kazakhstan; or ii) the occurrence of an Extraordinary Event. An "Extraordinary Event" is defined in the restricted stock agreement as any consolidation or merger of the Company or any of its subsidiaries with another person, or any acquisition of the Company or any of its subsidiaries by any person or group of persons, acting in concert, equal to thirty percent (30%) or more of the outstanding stock of the Company or any of its subsidiaries, or the sale of all or substantially all of the assets of the Company or any of its subsidiaries. In the event of an Extraordinary Event, the grants shall be deemed fully vested one day prior to the effective date of the Extraordinary Event. The Board of Directors shall determine conclusively whether or not an Extraordinary Event has occurred and the grantees have agreed to be bound by the determination of the Board of Directors. The grantees have the right to vote the shares, receive dividends and enjoy all other rights of ownership over the entire grant amount from the grant date, except for the right to transfer, assign, pledge, encumber, dispose of or otherwise directly or indirectly profit or share in any profit derived from a transaction in the shares prior to the occurrence of a Vesting Event. Shares will only vest to the grantee if the grantee is employed by the Company at the time a Vesting Event occurs. If a Vesting Event has not occurred at the time a grantee's employment with the Company ceases, for any reason, the entire grant amount shall be forfeited back to the Company.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

Compensation expense for vested stock grants in the amount of \$567,889 has been recognized in the Consolidated Statement of Operations and Consolidated Balance Sheet for the quarter ended December 31, 2007.

As of December 31, 2007, there was \$3,407,333 of total unrecognized compensation expense related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.5 years.

Stock Options

As of December 31, 2007 and March 31, 2007, the Company had stock options outstanding and exercisable of 1,173,583 with a weighted average exercise price of \$5.33. No options were issued during the quarter ended December 31, 2007.

Additional information regarding outstanding options as of December 31, 2007 is as follows:

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

Warrants

As of December 31, 2007 and March 31, 2007, the Company had warrants outstanding and exercisable of 142,857 with the weighted average exercise price of \$3.50.

Additional information regarding warrants outstanding as of December 31, 2007 is as follows:

| Warrants Outstanding | | | | Warrants Exercisable | |
|--------------------------------|-----------------|--|--|-----------------------------|--|
| Range of Exercise Price | Warrants | Weighted Average Exercise Price | Weighted Average Contractual Life (years) | Warrants | Weighted Average Exercise Price |
| \$ 3.50 | 142,857 | \$ 3.50 | 5.01 | 142,857 | \$ 3.50 |

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 13 – REVENUES

| | Three months ended December 31, | | Nine months ended December 31, | |
|----------------|------------------------------------|---------------------|-----------------------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Export sales | \$ 15,787,974 | \$ 2,214,382 | \$ 39,736,420 | \$ 8,577,326 |
| Domestic sales | 1,044,638 | - | 1,441,547 | - |
| | <u>\$ 16,832,612</u> | <u>\$ 2,214,382</u> | <u>\$ 41,177,967</u> | <u>\$ 8,577,326</u> |

The Company exports oil for sale to the world markets via the Aktau sea port. 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 for transportation expenses, freight charges and other expenses borne by the customer.

Since July 2007 the Company's production volume has exceeded its export quota. The Company has been selling this excess production to the domestic market in Kazakhstan. Oil prices in the domestic market are regulated by the government of Kazakhstan. Historic and current sales prices in the domestic market have been and currently are significantly lower than the prevailing world market price.

NOTE 14 - EARNINGS PER SHARE INFORMATION

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

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|------------------------------------|-------------|-----------------------------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income / (loss) | \$ 6,505,001 | \$ (90,861) | \$ 15,324,331 | \$ (2,215,270) |
| Basic weighted- average common shares outstanding | 44,690,657 | 43,693,985 | 44,690,657 | 43,422,404 |
| Effect of dilutive securities | | | | |
| Warrants | 56,532 | - | 56,531 | - |
| Stock options | 209,414 | - | 209,412 | - |
| Dilutive weighted average common shares outstanding | 44,956,603 | 43,693,985 | 44,956,600 | 43,422,404 |
| Basic income / (loss) per common share | \$ 0.15 | \$ 0.00 | \$ 0.34 | \$ (0.05) |
| Dilutive income / (loss) per common share | \$ 0.14 | \$ 0.00 | \$ 0.34 | \$ (0.05) |

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

The dilutive weighted average common shares outstanding for the three and nine months ended December 31, 2007 does not include the effect of the potential conversion of the Notes because conversion of the Notes is not contingent upon any market event. Rather, the Notes are convertible to common stock upon the first to occur of (a) the tenth New York business day following the Shelf Registration Statement Effective Date and (b) 13 July 2008.

NOTE 15 - RELATED PARTY TRANSACTIONS

The Company leases ground fuel tanks and other oil fuel storage facilities and warehouses from Term Oil LLC. The lease expenses for the three months ended December 31, 2007 and 2006, totaled to \$61,109 and \$41,347, respectively. Also the Company had accounts payable to Term Oil LLC in the amount of \$53,624 and \$50,982 as of December 31, 2007 and March 31, 2007, respectively. One of our significant shareholders is the owner of Term Oil LLC.

NOTE 16 - 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 and the Extended Territory of \$5,994,200 and \$5,350,680, respectively. When and if, the Company applies for and, when and if, it is granted commercial production rights for the ADE Block and Extended Territory, the Company will be required to begin repaying these historical investments to the Government of the Republic of Kazakhstan. The terms of repayment will be negotiated at the time the Company is granted commercial production rights.

Capital Commitments

Under the terms of its subsurface exploration contract, the Company is required to make certain minimum capital expenditures for exploration and development during each year of its work program. The work program year for the Company runs from July to July. The Company is required to spend a total of \$48.7 million in exploration and development activities on the ADE Block and the Extended Territory during the term of its subsurface exploration contract. Through December 31, 2007 the Company has spent \$150.6 million in exploration and development activities. To retain its rights under the contract, the Company is required to spend at least \$8.5 million from July 2007 to July 2008 and \$70 thousand from July 2008 to July 2009. As of December 31, 2007, the Company had already met its minimum expenditure requirement for 2007. The 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, 2009. The Company received approval to extend the subsurface exploration contract to July 2009. The failure to meet the minimum capital expenditures or to comply with the terms of the work program could result in the loss of the subsurface exploration contract.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

Litigation

In December 2003, a complaint was filed in the 15th Judicial Court in and for Palm Beach County, Florida, naming, among others, the Company and former directors, Georges Benarroch and Alexandre Agaian, 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 of the 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, and former BMB directors Alexandre Agaian, Bakhytbek Baiseitov, Mirgali Kunayev and Georges Benarroch wrongfully induced Toleush 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 and November 2005, Sokol Holdings filed amendments to 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 complaints alleged: i) tortious interference with contract, specific performance, breach of contract, unjust enrichment, unfair competition-misappropriation of labors and expenditures against all defendants; ii) breach of fiduciary duty, tortious interference with fiduciary duty and aiding and abetting breach of fiduciary duty by Mr. Agaian, Mr. Benarroch and Credifinance; and iii) breach of fiduciary duty by Mr. Cherdabayev, Mr. Kunayev and Mr. Baiseitov, 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 a 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.

The Company has retained the law firm of Bracewell & Giuliani LLP in New York, New York to represent it in the lawsuit. The Company 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 was renewed. Briefing on the motion was completed on August 24, 2006. On June 14, 2007, the court ruled on our motion. The court (a) denied the motion to dismiss on the ground that Kazakhstan is a more convenient forum; (b) denied the motion to dismiss in favor of litigation in New

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

York state court; (c) denied the motion to stay pending arbitration in Kazakhstan; and (d) denied the motion to dismiss on the ground that Mr. Tolmakov is an indispensable party. The court also (a) denied the motion (by defendants other than the Company) to dismiss for lack of personal jurisdiction and (b) granted the motion (by defendants other than the Company) to dismiss several claims for relief alleging breach of fiduciary duty, tortious interference with fiduciary duty and aiding and abetting breach of fiduciary duty. The court dismissed as moot the Company's cross-motion to stay discovery and instructed the parties to comply with the Magistrate Judge's discovery schedule.

The Company has appealed the court's refusal to stay the litigation pending arbitration in Kazakhstan. The Company moved for an order to stay all proceedings in the lower court while the aforementioned appeal is pending. This motion was denied by the lower court and we have made a similar motion before the Court of Appeals. Oral argument on the appeal was held on October 26, 2007. The Court of Appeals has not yet rendered a decision on the appeal or the ancillary motion to stay all proceedings pending a decision on the appeal. Therefore, discovery in the case is ongoing.

NOTE 17 - FINANCIAL INSTRUMENTS

As of December 31, 2007 and March 31, 2007 cash and cash equivalents included deposits in Kazakhstan banks in the amount \$973,782 and \$4,181,698, respectively and deposits in U.S. banks in the amount of \$31,213,147 and \$7,991,242, respectively. Kazakhstan banks are not covered by FDIC insurance, nor does the Republic of Kazakhstan have an insurance program similar to FDIC. Therefore, the full amount of our deposits in Kazakhstan banks was uninsured as of December 31, 2007 and March 31, 2007. The Company's deposits in U.S. banks are also in non-FDIC insured accounts which means they too are not insured to the \$100,000 FDIC insurance limit. To mitigate this risk, the Company has placed all of its U.S. deposits in a money market account that invests in U.S. government backed securities. As of December 31, 2007 and March 31, 2007 the Company made advance payments to Kazakhstan companies and government bodies in the amount \$20,981,850 and \$7,115,297, respectively. As of December 31, 2007 and March 31, 2007 restricted cash reflected in the long-term assets consisted of \$622,697 and \$303,697, 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 of Kazakhstan.

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

The following discussion is intended to assist you in understanding our results of operations and our present financial condition. Our Consolidated Financial Statements and the accompanying notes included in this Form 10-Q contain additional information that should be referred to when reviewing this material and this document should be read in conjunction with the Form 10-K of the Company for the year ended March 31, 2007.

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

Cautionary Note Regarding Forward-Looking Statements

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Rule 175 promulgated thereunder, that involve inherent risks and uncertainties. Words such as "expect," "anticipate," "intend," "plan," "believe," "estimate," "seek," "could," "should," "predict," "continue," "future," "may" and variations of such words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other factors that could cause actual results, performance or events to differ materially from any results, performance or events expressed or implied by such forward-looking statements. All forward-looking statements are qualified in their entirety by reference to the factors discussed in this report and identified from time to time in our filings with the SEC.

Any forward-looking statement speaks only as of the date on which it is made and is expressly qualified by these cautionary statements. Except as may be required by law, we undertake no obligation to publicly update or revise any forward-looking statement for any reason or to update the reasons actual results could differ materially from those anticipated in such forward-looking statements, even if new information becomes available in the future.

Overview

BMB Munai 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 ADE Block and an area adjacent to the ADE Block referred to herein as “the Extended Territory”, which includes the Kariman, Borly and Yessen oil and gas fields. The ADE Block and Extended Territory are collectively referred to herein as “our properties.”

Exploration Stage Activities

Under the statutory scheme in Kazakhstan prospective, oil fields are developed in two stages. The first stage is an exploration and development stage. During this stage the primary focus is on the search for a commercial discoveries, i.e., a discoveries of a sufficient quantities of oil and gas to make it commercially feasible to pursue execution of, or transition to, a production contract with the government.

As discussed above, we are currently engaged in exploration and development of our properties and are working to satisfy the requirements to move to commercial production. Based on discussions with the MEMR, the MEMR expects a contract holder to engage in three primary activities during exploration stage before it will be granted commercial production rights. These activities fall within three primary areas:

- fulfillment of minimum work program commitments;
- establishment of the existence of commercially producible reserves; and
- preparation, submission and receipt of approval of a development plan prepared by a third-party petroleum institute in Kazakhstan for the exploitation of the established commercial reserves.

Minimum Work Program Requirements

In order to be assured that adequate exploration activities are undertaken during exploration stage, the MEMR establishes an annual mandatory minimum work program to be accomplished in each year of the exploration contract. Under the minimum work program the contractor is required to invest a minimum dollar amount in exploration activities on the contract territory, which may include geophysical studies, construction of field infrastructure or drilling activities. During the exploration stage, the contractor is also required to drill sufficient wells in each field to establish the existence of commercially producible reserves in any field for which it seeks a commercial production license. Failure to complete the minimum work program requirements for any particular field during the term of the exploration contract could preclude the contractor from receiving a longer-term production contract for such field, regardless the success of the contractor in proving commercial reserves during the partial fulfillment of the minimum work program.

The contract we hold follows the above format. The contract sets the minimum dollar amount we must expend during each year of our work program. Under our exploration license our work program year ends on July 9 each year. Therefore our work program year does not coincide with our fiscal year. As a result these timing differences, the amounts reflected in this table as "Actually Made" may differ from amounts disclosed elsewhere in our Management's Discussion and Analysis or Consolidated Financial Statements, which present figures based on our fiscal year rather than our work program year.

| Amount of Expenditure | Prior to July 2005 | July 2005 to July 2006 | July 2006 to July 2007 | July 2007 to July 2008 | July 2008 to July 2009 | Total |
|-----------------------|--------------------|------------------------|------------------------|------------------------|------------------------|---------------|
| Mandated by Contract | \$21,500,000 | \$6,000,000 | \$12,700,000 | \$ 8,480,000 | \$70,000 | \$48,750,000 |
| Actually Made | \$38,400,000 | \$12,700,000 | \$53,650,000 | \$ 45,840,000* | \$ - | \$150,590,000 |

* Investment as of December 31, 2007.

Under the rules of the MEMR there is an option for expenditures above the minimum requirements in one period to be carried over to meet minimum obligations in future periods. As the above chart shows we have met or exceeded the minimum expenditure requirement in each period of the contract and have more than tripled the total minimum capital expenditure requirement during the exploration stage. Moreover, we expect our planned drilling activities from July 2008 through July 2009 to exceed minimum requirement. Therefore, we are confident we have already satisfied the minimum capital expenditure requirements of our exploration contract.

The second aspect of the mandatory minimum work program is the requirement to drill a sufficient number of wells on any field for which we plan to seek commercial production rights to support our claim of a commercial discovery within the field.

In Kazakhstan, typically, one exploratory well and two appraisal wells are sufficient to support a claim of commercially producible reserves in a particular field, although in some cases, commercial reserves have been demonstrated with fewer wells. The total number of wells the MEMR will require during exploration stage is generally determined by the number of fields or structures identified by the seismic studies done on a territory. The 3D seismic studies of our contract territory, as extended, have identified six potential fields or structures. Therefore, if we wish to apply for commercial production rights on all six fields we anticipate the need to drill three wells in each field, or at least 18 wells during the exploration phase of our contract, as reflected on the top half of the following chart:

| Structures | Aksaz | Dolinnoe | Emir | Kariman | Borly | Yessen |
|----------------------------------|-------|----------|------|---------|-------|--------|
| Exploratory Wells | 1 | 1 | 1 | 1 | 1 | 1 |
| Appraisal Wells | 2 | 2 | 2 | 2 | 2 | 2 |
| Existing Wells | 3 | 4 | 2 | 4 | 0 | 0 |
| Wells in Progress | 0 | 1 | 1 | 2 | 0 | 0 |
| Remaining Wells to Drill by 2009 | 0 | 0 | 0 | 0 | 3 | 3 |

The bottom half of the above chart shows our current progress on drilling of exploratory and appraisal wells. As the chart shows, for purposes of meeting the minimum work program requirements, we have completed drilling of thirteen wells in four fields and are currently drilling four additional wells.

Establishing the Existence of Commercially Producibile Reserves

Establishing the existence of commercially producibile reserves is accomplished through drilling wells and engaging in test production of those wells during the exploration stage. We have established the presence of oil and/or natural gas in each of the Aksaz, Dolinnoe, Emir and Kariman fields and are engaged in testing to gather the necessary data and to determine the presence of commercially producibile reserves in each of those fields. We have not drilled any wells in the Borly and Yessen fields. The failure to establish commercially producibile reserves within the Borly and/or Yessen fields may preclude us from applying for and receiving commercial production rights to those fields but would not preclude us from applying for or receiving commercial production rights to the other fields within our contract territory where we establish commercially producibile reserves.

Preparation, Submission and Approval of a Development Plan

Our goal during exploration stage is to study the geology and geophysical characteristics of each field and individual well, with a view to qualifying for a longer-term production contract. Once we complete drilling of a well, our emphasis focuses on an extended period of testing the well's production characteristics and capacities to determine the best method for producing oil from the well and to gain insight into the further development of the entire field. During this stage of exploration, oil production is subject to wide fluctuations caused by varying pressures commonly experienced by new wells and by significant periods of well closure to accommodate various mandatory testing. The data gathered during these testing procedures will be submitted by us to a third-party independent petroleum institute in Kazakhstan and will be the basis for preparing a development plan. The development plan, which is submitted to the MEMR for review and approval, sets forth the parameters and guidelines for the future commercial production and ongoing development of each field.

While we may satisfy all of the requirements to move some or all of our fields to commercial production prior to July 2009, we do not anticipate applying for commercial production rights until some time in 2009 because we enjoy certain economic advantages during exploration stage.

During exploration stage, we have the right to produce and sell oil and natural gas at a royalty rate of 2%. If and when we move to commercial production, the terms of our commercial production rights and royalty rates will be renegotiated. The royalty rates may change 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 from 2% to 6%.

Under our contract during exploration stage we are not required to pay rent export tax on the oil and natural gas we sell to the world markets. We anticipate that we will be required to pay rent export tax on all oil and natural gas we sell outside of the domestic market in Kazakhstan if and when we move to commercial production. The current rent export tax rate is tied to the Brent oil price. Rent export tax also increases on a sliding scale. At the present time the rate is 33% of net revenues.

Drilling Operations

We completed deepening/drill-in operations on the Aksaz-3 well during the quarter ended December 31, 2007. And have commenced testing operations and test production.

During the quarter ended December 31, 2007, we have been engaged in drilling operations on four wells: Kariman-5, Kariman-6, Dolinnoe-5 and Emir-2. We also spudded a new well, Kariman-7, during the quarter ended December 31, 2007. We expect to complete drilling of these wells and commence testing operations during the fourth fiscal quarter 2008 and first fiscal quarter 2009.

We completed drilling of the Kariman-5 well in January 2008 and have commenced extensive testing operations coupled with geophysical and geological studies on the well.

Well Performance and Production

The following table sets forth the number of oil and natural gas wells in which we owned an interest as of December 31, 2007.

| | Company-operated | | Non-operated | | Total | |
|-------------|------------------|-----|--------------|-----|-------|-----|
| | Gross | Net | Gross | Net | Gross | Net |
| Oil | 13 | 13 | - | - | 13 | 13 |
| Natural Gas | - | - | - | - | - | - |
| Total | 13 | 13 | - | - | 13 | 13 |

As noted above, as of the end of the fiscal quarter ended December 31, 2007 we had thirteen wells in workover, testing or test production. Drilling of our fourteenth well was completed subsequent to the quarter end.

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.

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 the hole, run in the hole, perforation, packer installation time, etc. This has the effect of artificially diminishing production rates averaged over a set period of time.

Following is a brief description of the current production status of each of our fourteen wells.

| Well | Current Single Interval Production Rate | Diameter Choke Size |
|-------------|---|---------------------|
| Aksaz -1 | 198 bpd | 6 mm |
| Aksaz -3 | 395-445 bpd | 4 mm |
| Aksaz -4 | 56-74 bpd | 5 mm |
| Dolinnoe -1 | 90-155 bpd | 4 mm |
| Dolinnoe -2 | 62-74 bpd | 2 mm |
| Dolinnoe -3 | 125-340 bpd | 8 mm |
| Dolinnoe -6 | 120-160 bpd | 13 mm |
| Emir -1 | -0 ⁽¹⁾ | - |
| Emir -6 | 6-12 bpd | - |
| Kariman -1 | 3-18 bpd ⁽²⁾ | - |
| Kariman -2 | 1,069-1,378 bpd | 6 mm |
| Kariman -3 | 6 – 43 bpd ⁽³⁾ | - |
| Kariman -4 | 620-870 bpd | 14 mm |
| Kariman -5 | - ⁽⁴⁾ | - |

- (1) This well currently is not producing because it is undergoing workover operations. Single interval production from this well prior to workover was 5 to 6 bpd.
- (2) We have installed a downhole pump for test production purposes. We plan to review oil flow stimulation options for this well depending on workover rig availability.
- (3) This well was completed during the quarter ended September 30, 2007. Currently we are engaged in testing activities on the intervals discovered in Middle Triassic carbonate and Upper Triassic sandstone intervals. We plan to install a downhole pump for test production purposes. We plan to review oil flow stimulation options for this well depending on workover rig availability.
- (4) This well was completed in January 2008. Currently we are engaged in testing activities on the intervals discovered in Middle Triassic carbonates intervals.

Results of Operations

Three months ended December 31, 2007, compared to the three months ended December 31, 2006.

Revenue and Production

The following table summarizes production volumes, average sales prices and operating revenue for our oil and natural gas operations for the three months ended December 31, 2007 and the three months ended December 31, 2006.

| | For the three months ended December 31, 2007 | For the three months ended December 31, 2006 | Three months ended December 31, 2007 to the three months ended December 31, 2006 | |
|--|--|--|---|-----------------------------|
| | | | \$ Increase (Decrease) | % Increase (Decrease) |
| Production volumes: | | | | |
| Natural gas (Mcf) | - | - | - | - |
| Natural gas liquids (Bbls) | - | - | - | - |
| Oil and condensate (Bbls) | 257,171 | 53,456 | 203,715 | 381% |
| Barrels of Oil equivalent (BOE) | 257,171 | 53,456 | 203,715 | 381% |
| Sales volumes: | | | | |
| Natural gas (Mcf) | - | - | - | - |
| Natural gas liquids (Bbls) | - | - | - | - |
| Oil and condensate (Bbls) | 252,857 | 52,019 | 200,838 | 386% |
| Barrels of Oil equivalent (BOE) | 252,857 | 52,019 | 200,838 | 386% |
| Average Sales Price ⁽¹⁾ | | | | |
| Natural gas (\$ per Mcf) | - | - | - | - |
| Natural gas liquids (\$ per Bbl) | - | - | - | - |
| Oil and condensate (\$ per Bbl) | \$ 66.57 | \$ 42.57 | \$ 24.00 | 56% |
| Barrels of Oil equivalent (\$ per BOE) | \$ 66.57 | \$ 42.57 | \$ 24.00 | 56% |
| Operating Revenue: | | | | |
| Natural gas | - | - | - | - |
| Natural gas liquids | - | - | - | - |
| Oil and condensate | \$ 16,832,612 | \$ 2,214,382 | \$ 14,618,230 | 660% |
| 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 three months ended December 31, 2007, or the three months ended December 31, 2006.

Revenues. We generate revenue under our contract from the sale of oil recovered during test production. During the three months ended December 31, 2007 our oil production increased 381% compared to the three months ended December 31, 2006. This significant increase in production is primarily attributable to the fact that we had seven additional wells in testing or test production during some or all of the quarter ended December 31, 2007 as compared to the quarter ended December 31, 2006, including four new wells in testing or test production during the entire current fiscal quarter, two new wells we began testing during at least some part of the quarter and one existing well that was put back into test production after completion of an extended workover.

During the three months ended December 31, 2007 we realized revenue from oil sales of \$16,832,612 compared to \$2,214,382 during the three months ended December 31, 2006. The largest contributing factor to the 660% increase in revenue was a 386% increase in sales volume. Another factor contributing to the increase in revenues was a 56% increase in the price per barrel we received for oil sales during the three months ended December 31, 2007 compared to the fiscal quarter ended December 31, 2006. During the fiscal quarter ended December 31, 2007 we exported 82% of our oil to the world markets and realized world market price for those sales. During the comparable quarter 2006 we exported 100% of our oil. Revenue from oil sold to the world markets made up 94% of total revenue during the quarter ended December 31, 2007 and 100% of total revenue during the quarter ended December 31, 2006. We anticipate production to remain fairly constant until we complete the new wells that are currently being drilled and begin test production at those wells.

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

Costs and Operating Expenses

The following table presents details of our expenses for the three months ended December 31, 2007 and 2006:

| | <u>For the three months ended December 31, 2007</u> | <u>For the three months ended December 31, 2006</u> |
|--------------------------------------|---|---|
| Expenses: | | |
| Oil and gas operating ⁽¹⁾ | \$ 1,538,143 | \$ 360,905 |
| General and administrative | 3,988,250 | 1,705,166 |
| Depletion ⁽²⁾ | 1,716,899 | 323,062 |
| Accretion expenses | 70,235 | 56,177 |
| Amortization and depreciation | 62,850 | 44,726 |
| Total | \$ 7,376,377 | \$ 2,490,036 |
| Expenses (\$ per BOE): | | |
| Oil and gas operating ⁽¹⁾ | 6.08 | 6.94 |
| Depletion ⁽²⁾ | 6.79 | 6.21 |

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

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

Oil and Gas Operating Expenses. During the three months ended December 31, 2007 we incurred \$1,538,143 in oil and gas operating expenses compared to \$360,905 during the three months ended December 31, 2006. This significant increase is primarily the result of increased royalty, transportation and production expenses.

During the three months ended December 31, 2007 royalty paid to the Government increased \$445,178 or 905% compared to the three months ended December 31, 2006. The increase in royalty corresponds with the increase in production volume. While royalty expense increased significantly, as a percentage of total revenue, royalty expense remained constant. We anticipate that royalty expense will continue to fluctuate in proportion to production volume and realized sales price.

Transportation expenses increased \$595,007 or 245% as a result of two factors. First, transportation expense increased because of the increased volume of oil we produced and transported. Second, transportation expense increased because the Kariman-2 and Kariman-4 wells are located farther from our oil base than our other existing wells and Kariman-2 and Kariman-4 are our highest producing wells. We anticipate transportation expenses will continue to increase with increases in production.

During the three months ended December 31, 2007 payroll and related payments of production personnel increased \$137,053 or 199% compared to the three months ended December 31, 2006. As production volume increased we retained additional production personnel during the quarter ended December 31, 2007.

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.

While oil and gas operating expenses increased 326% during the current fiscal quarter compared to the comparable fiscal quarter of the prior year, expense per BOE decreased from \$6.94 per BOE in prior fiscal quarter to \$6.08 in current fiscal quarter. The reason expense per BOE decreased is due to the fact that we increased our sales volume in the current fiscal quarter. In the quarter ended December 31, 2006 we sold 52,019 barrels of oil, during the current quarter ended December 31, 2007 we sold 252,857 barrels of oil. As expense per BOE is a function of total expense divided by the number of barrels of oil sold, the 386% increase in sales volume more than offset the 326% increase in expenses resulting in a 12% decrease in oil and gas operating expense per BOE.

General and Administrative Expenses. General and administrative expenses during the three months ended December 31, 2007 were \$3,988,250 compared to \$1,705,166 during the three months ended December 31, 2006. This represents a 134% increase in general and administrative expenses. This increase was the result of several factors including increases in compensation expenses, payroll, rent, taxes and professional services.

We recognized compensation expense relating to non-vested share-based compensation arrangements of \$576,957 during the three months ended December 31, 2007 resulting from restricted stock grants made to employees and outside consultants. By comparison, during the three months ended December 31, 2006 we recognized compensation expense in the amount of \$50,600 for restricted stock grants issued to employees and outside consultants. We also incurred:

- a 197% increase in payroll and related costs as we hired additional administrative personnel to fulfill business needs and increased employee pay rates for existing employees;
- a 51% increase in rent expense as a result of renting special equipment, apartments and additional vehicles;
- a 422% increase in taxes resulting from environmental payments; and
- a 213% increase in professional services resulting from legal fees incurred in our ongoing litigation.

We anticipate general and administrative expenses will remain relatively consistent with expenses realized during the three months ended December 31, 2007 in upcoming quarters.

Depletion. Depletion expense for the three months ended December 31, 2007 increased by \$1,393,837 or 431% compared to depletion expenses for the three months ended December 31, 2006. The major reason for this increase in depletion expense was the 386% increase in sales volume during the current fiscal quarter compared to same quarter of last year. The increase in depletion expense is also attributable to the fact that we drilled additional wells, continued workover on existing wells and developed additional infrastructure during current fiscal quarter.

Depreciation and Amortization. Depreciation and amortization expense for the three months ended December 31, 2007 increased 41% compared to the three months ended December 31, 2006. The increase resulted from purchases of fixed assets during the current fiscal year.

Income from Operations. As a result of a 660% increase in revenues during the fiscal quarter ended December 31, 2007 we realized income from operations of \$9,456,235 compared to loss from operations of \$275,654 during the fiscal quarter ended December 31, 2006. This represents a 3,530% increase in income from operations during the fiscal quarter ended December 31, 2007 compared to the fiscal quarter ended December 31, 2006. In the near term, we believe production rates and oil prices will be such that we will continue to generate sufficient revenue from oil sales to offset our non-exploration expenses, but that we will need to seek additional funding to fully finance our planned drilling activities through July 2009. If, however, production levels or oil prices were to decrease, or if our export quota were not granted or materially reduced, we may be unable to offset our operating expenses with revenue from production and could experience losses from operations.

Other Income/Expense. During the fiscal quarter ended December 31, 2007 we realized total other income of \$399,827 compared to total other income of \$184,793 during the fiscal quarter ended December 31, 2006. This 116% increase is largely attributable to a \$122,261 increase in foreign exchange gain resulting from fluctuations of foreign currency rates against the U.S. Dollar and a \$90,561 increase in interest income we realized from funds we received from the placement of convertible notes.

Net Income. For all of the foregoing reasons, during the three months ended December 31, 2007 we realized net income of \$6,505,001 or basic earnings of \$0.15 per share, diluted earnings of \$0.14 per share, compared to a net loss of \$90,861 or \$0 per share for the three months ended December 31, 2006.

Nine months ended December 31, 2007, compared to the nine months ended December 31, 2006.

Revenue and Production

The following table summarizes production volumes, average sales prices and operating revenue for our oil and natural gas operations for the nine months ended December 31, 2007 and the nine months ended December 31, 2006.

| | For the nine months ended December 31, 2007 | For the nine months ended December 31, 2006 | Nine months ended December 31, 2007 to the nine months ended December 31, 2006 | |
|--|---|---|---|------------------------|
| | | | \$ | % |
| | | | Increase (Decrease) | Increase (Decrease) |
| Production volumes: | | | | |
| Natural gas (Mcf) | - | - | - | - |
| Natural gas liquids (Bbls) | - | - | - | - |
| Oil and condensate (Bbls) | 672,297 | 179,487 | 492,810 | 275% |
| Barrels of Oil equivalent (BOE) | 672,297 | 179,487 | 492,810 | 275% |
| Sales volumes: | | | | |
| Natural gas (Mcf) | - | - | - | - |
| Natural gas liquids (Bbls) | - | - | - | - |
| Oil and condensate (Bbls) | 665,553 | 171,897 | 493,656 | 287% |
| Barrels of Oil equivalent (BOE) | 665,553 | 171,897 | 493,656 | 287% |
| Average Sales Price ⁽¹⁾ | | | | |
| Natural gas (\$ per Mcf) | - | - | - | - |
| Natural gas liquids (\$ per Bbl) | - | - | - | - |
| Oil and condensate (\$ per Bbl) | \$ 61.87 | \$ 49.90 | \$ 11.97 | 24% |
| Barrels of Oil equivalent (\$ per BOE) | \$ 61.87 | \$ 49.90 | \$ 11.97 | 24% |
| Operating Revenue: | | | | |
| Natural gas | - | - | - | - |
| Natural gas liquids | - | - | - | - |
| Oil and condensate | \$ 41,177,967 | \$ 8,577,326 | \$ 32,600,641 | 380% |
| 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 nine months ended December 31, 2007, or the nine months ended December 31, 2006.

Revenues. We generate revenue under our contract from the sale of oil recovered during test production. During the nine months ended December 31, 2007 our oil production increased 275% compared to the nine months ended December 31, 2006. This significant increase in production is primarily attributable to the fact that we had thirteen wells in testing or test production during all or some portion of the nine months ended December 31, 2007 compared to seven wells during all or some portion of the nine month period ended December 31, 2006.

During the nine months ended December 31, 2007 we realized revenue from oil sales of \$41,177,967 compared to \$8,577,326 during the nine months ended December 31, 2006. The largest contributing factor to the 380% increase in revenue was a 287% increase in sales volume. Another factor contributing to the increase in revenues was a 24% increase in the price per barrel we received for oil sales during the nine months ended December 31, 2007 compared to the nine months ended December 31, 2006. During the nine months ended December 31, 2007 we exported 91% of our oil to the world markets. During the nine months ended December 31, 2006 we exported 100% of our oil to the world markets. In each period we realized world market price for the oil we exported. Sales to the world markets accounted for 97% of total revenues during the nine months ended December 31, 2007 and 100% of total revenue during the nine months ended December 31, 2006. We anticipate production to remain fairly constant until we complete and begin testing of the four wells that are currently being drilled.

As discussed above, our revenue is sensitive to changes in prices received for our oil. Most of our production is currently being sold at the prevailing world market price, which fluctuates in response to many factors that are outside our control. Imbalances in the supply and demand for oil can have a dramatic effect on the price we receive for our production. Similarly, if we were denied an export quota or granted a reduced export quota that would require us to sell all or a significant percentage of our production to the domestic market in Kazakhstan, we anticipate the price we would receive per barrel of oil would be much lower than the price we currently realize and revenues would correspondingly decrease. 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 nine months ended December 31, 2007 and 2006:

| | For the nine months ended December 31, 2007 | For the nine months ended December 31, 2006 |
|--------------------------------------|--|--|
| Expenses: | | |
| Oil and gas operating ⁽¹⁾ | \$ 3,768,513 | \$ 1,351,478 |
| General and administrative | 10,954,205 | 9,028,108 |
| Depletion ⁽²⁾ | 4,223,854 | 991,030 |
| Accretion expenses | 162,594 | 120,235 |
| Amortization and depreciation | 175,069 | 121,237 |
| Total | \$ 19,284,235 | \$ 11,612,088 |
| Expenses (\$ per BOE): | | |
| Oil and gas operating ⁽¹⁾ | 5.66 | 7.86 |
| Depletion ⁽²⁾ | 6.35 | 5.77 |

(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 nine months ended December 31, 2007 we incurred \$3,768,513 in oil and gas operating expenses compared to \$1,351,478 during the nine months ended December 31, 2006. This significant increase is primarily the result of several factors, including increased royalty, salary and transportation expenses.

During the nine months ended December 31, 2007 royalty paid to the Government increased by \$832,733 or 404% compared to the nine months ended December 31, 2006. The increase in royalty corresponds with the increase in production. While royalty expenses increased significantly, as a percentage of total revenue, royalty expense remained nearly unchanged. We anticipate that royalty expenses will continue to fluctuate in proportion to production volume and realized sales price.

During the nine months ended December 31, 2007 payroll and related payments of production personnel increased \$113,901 or 30% compared to the nine months ended December 31, 2006. As production volume increased we retained additional production personnel during the nine months ended December 31, 2007.

Transportation expenses increased \$1,470,401 or 193% as a result of two factors. First, transportation expense increased because of the increased volume of oil we produced and transported. Second, transportation expense increased because the Kariman-2 and Kariman-4 wells are located farther from our oil base than our other existing wells and Kariman-2 and Kariman-4 are our highest producing wells. We anticipate transportation expenses will continue to increase with increases in production.

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.

While oil and gas operating expenses increased 179% during the nine months ended December 31, 2007 compared to the nine months ended December 31, 2006, expense per BOE decreased from \$7.86 per BOE during the nine months ended December 31, 2006 to \$5.66 during the nine months ended December 31, 2007. The reason expense per BOE decreased is due to the fact that we increased our sales volume during the nine months ended December 31, 2007. During the nine months ended December 31, 2006 we sold 171,487 barrels of oil, during the nine months ended December 31, 2007 we sold 665,553 barrels of oil. As expense per BOE is a function of total expense divided by the number of barrels of oil sold, the 287% increase in sales volume more than offset the 179% increase in expenses resulting in the 28% decrease in oil and gas operating expense per BOE.

General and Administrative Expenses. General and administrative expenses during the nine months ended December 31, 2007 were \$10,954,205 compared to \$9,028,108 during the nine months ended December 31, 2006. This represents a 21% increase in general and administrative expenses. This increase during the 2007 period was primarily the result of:

- a 97% increase in payroll and related costs as we hired additional administrative personnel to fulfill business needs, increased employee pay rates for existing employees;
- a 44% increase in rent expense from renting special equipment, apartments and additional vehicles;
- a 146% increase in taxes resulting from environmental payments; and
- a 223% increase in professional services resulting from legal fees incurred in our ongoing litigation.

These increases were partially offset by a \$2,330,075 decrease in compensation expense. During the nine months ended December 31, 2007 we recognized compensation expense relating to non-vested share-based compensation arrangements of \$1,730,871 resulting from restricted stock grants made to employees and outside consultants. By comparison, during the same period 2006 we recognized compensation expense relating to non-vested share-based compensation arrangements for restricted stock grants and issued to employees and outside consultants of \$4,060,946.

Depletion. Depletion expense for the nine months ended December 31, 2007 increased by \$3,232,824 or 326% compared to depletion expenses for the nine months ended December 31, 2006. The major reason for this increase in depletion expense was a 287% increase in sales volume during the nine months ended December 31, 2007 compared to same period of last year. The increase in depletion expense is also attributable to the fact that we drilled additional wells, continued workover on existing wells and developed additional infrastructure during current fiscal year.

Depreciation and Amortization. Depreciation and amortization expense for the nine months ended December 31, 2007 increased 44% compared to the nine months ended December 31, 2006. The increase resulted from purchases of fixed assets during the year.

Income/Loss from Operations. As a result of a 380% increase in revenues during the nine months ended December 31, 2007 we realized an income from operations of \$21,893,732 compared to a loss from operations of \$3,034,762 during the nine months ended December 31, 2006. This represents a 821% increase in income from operations during the nine months ended December 31, 2007 compared to the nine months ended December 31, 2006. In future periods, we believe production rates and oil prices will be such that we will continue to generate sufficient revenue from oil sales to offset our expenses. If, however, production levels or oil prices were to decrease, or if our export quota were not granted or materially reduced, we may be unable to offset our operating expenses with revenue from production and could experience losses from operations.

Other Income/Expense. During the nine months ended December 31, 2007 we realized total other income of \$852,431 compared to total other income of \$995,005 during the nine months ended December 31, 2006. This 14% decrease is largely attributable to a \$274,778 decrease in interest income. This decrease in interest income was partially offset by a \$118,974 increase in exchange gain resulting from fluctuations of foreign currency rates against the US Dollar.

Net Income/Loss. For the reasons discussed above, during the nine months ended December 31, 2007 we realized net income of \$15,324,331 or \$0.34 per share compared to a net loss of \$2,215,270 or \$0.05 per share for the nine months ended December 31, 2006.

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 December 31, 2007 we have raised approximately \$94.6 million through the sale of our common stock. Additionally during the quarter ended September 30, 2007 we completed the placement of \$60 million in principal amount of 5.0% convertible senior notes due in 2012.

Our need for capital is primarily to fund our ongoing operations to meet the drilling requirements of our minimum work program. For the period from inception through December 31, 2007, we have incurred capital expenditures of \$158,684,037 for exploration, development and acquisition activities.

We continually evaluate our capital needs and compare them to our capital resources. We project that in addition to the funds we raised in the Note placement we may need up to an additional \$65 million to complete exploration of each of the fields within the ADE Block and the Extended Territory to secure a commercial production contract over each field. We do not anticipate that current and future production revenues will be sufficient to fund this amount and expect that we will need to seek additional financing.

As noted above, on July 13, 2007 we completed the private placement of \$60 million in principal amount of 5.0% convertible senior notes due 2012 to non-U.S. persons outside of the United States in accordance with Regulation S under the Securities Act and in compliance with the laws and regulations applicable in each country where the placement took place. The Notes have a yield to maturity of 6.25%. Interest is paid at a rate of 5.0% per annum on the principal amount, payable semiannually in arrears on January 13 and July 13 of each year. The first interest payment was made on January 13, 2008.

The Notes are convertible into shares of our common stock. The initial conversion price was set at \$7.2094 per share, subject to customary adjustments in certain circumstances, including but not limited to, changes of control and certain future equity financings. The conversion price of the Notes shall not be adjusted below U.S. \$6.95.

The Notes are callable after three years at a price equal to 104% of the principal amount thereof plus any accrued and unpaid interest to the date fixed for redemption, subject to the price of our common stock trading at least 30% above the conversion price. Holders of the Notes will have the right to require us to redeem all or a portion of their Notes on July 13, 2010 at a price equal to 104% of the principal amount thereof plus any accrued and unpaid interest to the date fixed for redemption. Unless previously redeemed, converted or purchased and cancelled, the Notes will be redeemed by us at a price equal to 107.2% of the principal amount thereof on July 13, 2012. The Notes constitute direct, unsubordinated and unsecured, interest bearing obligations of the Company.

We granted registration rights to the Noteholders to register the Notes and the underlying shares of common stock issuable upon the conversion of the Notes (collectively, the "Covered Securities") for resale pursuant to the Securities Act. On January 25, 2008 the SEC declared effective the shelf registration statement filed by the Company registering the resale of the Covered Securities on behalf of the Noteholders.

For additional detail regarding the Notes, including adjustments to the initial conversion price and the registration right of the Noteholders see *Note 10* to the *Notes to the Unaudited Consolidated Financial Statements, December 31, 2007*.

We are using the net proceeds from the Note issuance of approximately \$56.2 million to continue our drilling program. We anticipate that even with these funds and anticipated revenue from operations we will need to seek additional financing to fund our planned drilling program through the end of our exploration contract in July 2009. While we are in preliminary negotiations with a party to provide us a revolving credit facility, we have not at this time executed any definitive agreements. There is not guarantee that we will be able to secure additional funding on acceptable terms, or at all.

In the event we are unable to obtain sufficient funding to fully explore our entire exploration contract territory, we will forego exploration of one or more of the potential fields within the Extended Territory. The failure to explore a particular field by the end of our exploration contract would terminate our rights to explore that field in the future and would preclude us from making application for a commercial production contract for that field.

Cash Flows

During the nine months ended December 31, 2007 cash was primarily used to fund exploration and development expenditures. See below for additional discussion and analysis of cash flow.

| | Nine months ended December 31, 2007 | Nine months ended December 31, 2006 |
|---|--|--|
| Net cash provided by/(used in) operating activities | \$ 23,874,252 | \$ (3,900,626) |
| Net cash used in investing activities | \$ (60,071,026) | \$ (31,552,804) |
| Net cash provided by financing activities | \$ 56,210,763 | \$ 5,758,502 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | \$ 20,013,988 | \$ (29,694,928) |

Our principal source of liquidity during the quarter ended December 31, 2007 was cash and cash equivalents. At March 31, 2007 cash and cash equivalents totaled approximately \$12.2 million. At December 31, 2007 cash and cash equivalents had increased to approximately \$32.2 million. During the nine months ended December 31, 2007 we spent approximately \$55.9 million to fund our drilling and development activities and we received approximately \$56.2 million as net proceeds from the issuance of the Notes.

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 December 31, 2007, excluding current liabilities as listed on our consolidated balance sheet:

| Contractual obligations | Payments Due By Period | | | | |
|--|------------------------|----------------------|----------------------|-------------|---------------|
| | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| Capital Expenditure Commitment ⁽¹⁾ | \$ 21,250,000 | \$ 12,700,000 | \$ 8,550,000 | \$ - | \$ - |
| Due to the Government of the Republic of Kazakhstan ⁽²⁾ | 11,344,880 | - | 11,344,880 | - | - |
| Liquidation Fund | 2,574,990 | - | 2,574,990 | - | - |
| Total | \$ 35,169,870 | \$ 12,700,000 | \$ 22,469,870 | \$ - | \$ - |

(1) Under the terms of our subsurface exploration contract we are required to spend a total of \$48.7 million in exploration and development activities on our properties, including a minimum of \$12.7 million in 2007, \$8.5 million in 2008 and \$70 thousand in 2009. As of December 31, 2007, we have spent a total of \$150.6 million in exploration and development activities, including \$45.8 million through six calendar months ended December 31, 2007.

(2) In connection with our acquisition of the oil and gas contract covering the ADE Block and the Extended Territory, we are required to repay the ROK for historical costs incurred by it in undertaking geological and geophysical studies and infrastructure improvements. Our repayment obligation for the ADE Block is \$5,994,200 and our repayment obligation for the Extended Territory is \$5,350,680. The terms of repayment of these obligations, however, will not be determined until such time as we apply for and are granted commercial production rights by the ROK. Should we decide not to pursue a commercial production rights, we can relinquish the ADE Block and/or the Extended Territory to the ROK in satisfaction of their associated obligations.

Off-Balance Sheet Financing Arrangements

As of December 31, 2007, we had no off-balance sheet financing arrangements.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

Our primary market risks are fluctuations in commodity prices and foreign currency exchange rates. We do not currently use derivative commodity instruments or similar financial instruments to attempt to hedge commodity price risks associated with future crude oil production.

Commodity Price Risk

Our revenues, profitability and future growth depend substantially on prevailing prices for crude oil. Prices also affect the amount of cash flow available for capital expenditures and our ability to either borrow or raise additional capital. Price affects our ability to produce crude oil economically and to transport and market our production either through export to international markets or within Kazakhstan. Our first two fiscal quarters 2008 crude oil sales in the international export market were based on prevailing market prices at the time of sale less applicable discounts due to transportation.

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

Foreign Currency Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to provide reasonable assurance that information

required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosures. Because of inherent limitations, our disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of such disclosure controls and procedures are met.

As of the end of the period covered by this Report we conducted an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2007.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2007 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See *Note 16 "Commitments and Contingencies"* to the *Notes to the Consolidated Financial Statements* under Part I – Item 1 of this Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our 2007 Annual Report on Form 10-K, as amended, including under the heading "Item 1A. Risk Factors" of Part I, and the risk factors disclosed in our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2007 and September 30, 2007, including under the heading "Item 1A. Risk Factors" of Part II which risks could materially affect our business, financial condition or future results. These risks are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 6. Exhibits

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

| | |
|--------------|--|
| Exhibit 12.1 | Computation of Earnings to Fixed Charges |
| 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 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.2 | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURES

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

BMB MUNAI, INC.

Date: February 8, 2008 /s/ Gamal Kulumbetov
Gamal Kulumbetov, Chief Executive Officer

Date: February 8, 2008 /s/ Sanat Kasymov
Sanat Kasymov, Chief Financial Officer

EXHIBIT 12.1

BMB MUNAI INC
 COMPUTATION OF RATIO OF EARNINGS (LOSS) TO FIXED CHARGES

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|------------------------------------|-------------|--------------------------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Earnings/(loss): | | | | |
| Income / (loss) before income taxes | \$ 9,986,062 | \$ (90,861) | \$ 22,746,163 | \$ (2,039,757) |
| Add: Fixed charges | 1,134,299 | - | 2,091,421 | - |
| Add: Amortisation of capitalized interest | 4,769 | - | 13,459 | - |
| Less: Interest capitalized | | | | |
| Total earnings/(loss) | 9,860,831 | (90,861) | 22,759,622 | (2,039,757) |
| Fixed charges: | | | | |
| Interest expensed and capitalized | 750,000 | - | 1,319,667 | - |
| Amortized premiums, discounts, & bond costs | 384,299 | - | 699,754 | - |
| Total fixed charges | 1,134,299 | - | 2,091,421 | - |
| Ration of earnings to fixed charges | 8.69 | - | 10.88 | - |

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 Quarterly Report on Form 10-Q 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant'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
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: February 8, 2008

/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 Quarterly Report on Form 10-Q 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant'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
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: February 8, 2008

/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 Quarterly Report of BMB Munai, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2007, 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: February 8, 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 Quarterly Report of BMB Munai, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2007, 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: February 8, 2008

/s/ Sanat Kasymov
Sanat Kasymov, Chief Financial Officer