

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2008

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 MUNAI, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

30-0233726

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

202 Dostyk Ave, 4th Floor
Almaty, Kazakhstan

(Address of principal executive offices)

050051

(Zip Code)

+7 (727) 237-51-25

(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 such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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 November 5, 2008, the registrant had 47,378,420 shares of common stock, par value \$0.001, issued and outstanding.

BMB MUNAI, INC.
FORM 10-Q
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PART I - FINANCIAL INFORMATION
Item 1 - Unaudited Consolidated Financial Statements
BMB MUNAI, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	Notes	September 30, 2008 (unaudited)	March 31, 2008
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	\$ 11,959,948	\$17,238,837
Trade accounts receivable		761,298	5,865,712
Prepaid expenses and other assets, net	4	6,108,567	3,415,261
Total current assets		18,829,813	26,519,810
LONG TERM ASSETS			
Oil and gas properties, full cost method, net	5	230,397,233	183,042,971
Inventories for oil and gas projects	6	15,707,317	11,008,898
Prepayments for materials used in oil and gas projects		313,118	11,893,451
Other fixed assets, net		7,016,480	3,134,090
Construction in progress	7	7,761,561	7,261,561
Long term VAT recoverable	8	9,898,226	8,106,397
Convertible notes issue cost		2,869,294	3,248,218
Restricted cash		622,697	622,697
Total long term assets		274,585,926	228,318,283
TOTAL ASSETS		293,415,739	254,838,093
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		\$ 25,620,571	\$ 21,374,723
Taxes payable		499,863	906,909
Accrued coupon payment		641,667	641,667
Accrued liabilities and other payables		486,448	302,161
Total current liabilities		27,248,549	23,225,460
LONG TERM LIABILITIES			
Convertible notes issued, net	9	60,925,172	60,535,455
Liquidation fund	10	4,382,462	3,728,531
Deferred taxes	16	7,544,716	7,544,716
Total long term liabilities		72,852,350	71,808,702
COMMITMENTS AND CONTINGENCIES	19	-	-
SHAREHOLDERS' EQUITY			
Preferred stock - \$0.001 par value; 20,000,000 shares authorized; no shares issued or outstanding	11	-	-
Common stock - \$0.001 par value; 500,000,000 shares authorized, 47,378,420 and 44,784,134 shares outstanding, respectively	11	47,378	44,784
Additional paid in capital	11	146,710,486	136,353,520
Retained earnings		46,556,976	23,405,627
Total shareholders' equity		193,314,840	159,803,931
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 293,415,739	\$ 254,838,093

See notes to the unaudited consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Notes	Three months ended September 30,		Six months ended September 30,	
		2008 (unaudited)	2007 (unaudited)	2008 (unaudited)	2007 (unaudited)
REVENUES	12	\$ 22,758,160	\$12,764,397	\$ 57,585,384	\$24,345,355
COSTS AND OPERATING EXPENSES					
Export duty	13	4,386,983	-	5,739,900	-
Oil and gas operating		2,274,862	1,190,481	4,615,705	2,230,370
General and administrative		6,247,879	3,591,491	10,585,520	6,965,955
Consulting expenses	14	(3,065,000)	-	8,662,500	-
Depletion		3,085,836	1,256,318	6,419,125	2,506,955
Amortization and depreciation		83,081	56,371	146,740	112,219
Accretion expense		108,398	63,691	204,356	92,359
Total costs and operating expenses		<u>13,122,039</u>	<u>6,158,352</u>	<u>36,373,846</u>	<u>11,907,858</u>
INCOME FROM OPERATIONS		9,636,121	6,606,045	21,211,538	12,437,497
OTHER INCOME / (EXPENSE)					
Foreign exchange gain / (loss), net		11,539	415,688	41,575	(77,550)
Disgorgement funds received	15	-	-	1,650,293	-
Interest income		176,899	548,335	307,191	639,390
Other income/(expense), net		5,467	(89,655)	(59,248)	(109,236)
Total other income/(expense)		<u>193,905</u>	<u>874,368</u>	<u>1,939,811</u>	<u>452,604</u>
INCOME BEFORE INCOME TAXES		9,830,026	7,480,413	23,151,349	12,890,101
INCOME TAX EXPENSE	16	-	(2,543,340)	-	(4,070,771)
NET INCOME		<u>\$ 9,830,026</u>	<u>\$4,937,073</u>	<u>\$ 23,151,349</u>	<u>\$8,819,330</u>
BASIC NET INCOME PER COMMON SHARE	17	\$ 0.21	\$ 0.11	\$ 0.50	\$ 0.20
DILUTED NET INCOME PER COMMON SHARE	17	\$ 0.21	\$ 0.11	\$ 0.50	\$ 0.20

See notes to the unaudited consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<u>For the Six Months Ended September 30,</u>		<u>2008</u> <u>(unaudited)</u>	<u>2007</u> <u>(unaudited, restated)</u>
	Notes		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		\$ 23,151,349	\$ 8,819,330
Adjustments to reconcile net income to net cash provided by operating activities:			
Depletion	5	6,419,125	2,506,955
Depreciation and amortization		146,740	112,219
Accretion expenses	10	204,356	92,359
Stock based compensation expense to non-employees	14	7,662,500	-
Stock based compensation expense	11	2,647,059	1,153,914
Income tax		-	4,070,771
Changes in operating assets and liabilities:			
Decrease/(increase) in trade accounts receivable		5,104,414	(1,194,380)
Increase in prepaid expenses and other assets		(2,693,306)	(6,009,116)
Increase in VAT recoverable		(1,791,829)	(1,630,043)
Increase in current liabilities		4,023,089	2,786,497
Net cash provided by operating activities		<u>44,873,497</u>	<u>10,708,506</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of oil and gas properties	5	(50,723,854)	(30,247,382)
Purchase of other fixed assets		(4,360,447)	(474,761)
Cash paid for convertible notes coupon, capitalized as oil and gas properties		(1,500,000)	-
Decrease/(increase) in prepayments for materials used in oil and gas projects		11,580,333	(2,048,966)
(Increase)/decrease in inventories for oil and gas projects		(4,698,419)	2,115,288
Increase in construction in progress		(500,000)	(730,759)
Net cash used in investing activities		<u>(50,202,387)</u>	<u>(31,386,580)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from Exercise of Common Stock Options and Warrants	11	50,001	-
Proceeds from issuance of convertible debt		-	56,210,763
Net cash provided by financing activities		<u>50,001</u>	<u>56,210,763</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		(5,278,889)	35,532,689
CASH AND CASH EQUIVALENTS at beginning of period		<u>17,238,837</u>	<u>12,172,940</u>
CASH AND CASH EQUIVALENTS at end of period		<u>\$ 11,959,948</u>	<u>\$ 47,705,629</u>

See notes to the unaudited consolidated financial statements.

BMB MUNAI, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(CONTINUED)

<u>For the Six Months Ended September 30,</u>		<u>2008</u> <u>(unaudited)</u>	<u>2007</u> <u>(unaudited, restated)</u>
	Notes		
Non-Cash Investing and Financing Activities			
Asset retirement obligation incurred in property development	10	\$ 449,575	\$ 316,802
Coupon payment on convertible notes, capitalized as part of oil and gas properties	9	1,500,000	641,667
Accretion of discount on convertible notes, capitalized as part of oil and gas properties	9	389,717	153,360
Amortization of convertible notes issue costs, capitalized as part of oil and gas properties		\$ 378,924	\$ 162,095

See notes to the unaudited consolidated financial statements.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE 1 - DESCRIPTION OF BUSINESS

The corporation now known as BMB Munai, Inc., a Nevada corporation, (“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 acquirer 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. BMB Munai changed its domicile from Delaware to Nevada on December 21, 2004.

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. The Company began generating significant revenues in January 2006 and is no longer in the development stage.

Currently the Company has completed twenty-two wells with an additional two wells in progress. As discussed in more detail in Note 2, the Company engages in exploration of its licensed territory pursuant to an exploration license and has not yet applied for or been granted a commercial production license.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial information included herein is unaudited, except for the balance sheet as of March 31, 2008, which is derived from the Company’s audited consolidated financial statements for the year ended March 31, 2008. 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.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

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, 2008 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, 2008.

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.

Restatement of Financial Statements

The consolidated statement of cash flows for the six months ended September 30, 2007 has been restated to correct the classification of inventories of materials for oil and gas projects and prepayments for materials used in oil and gas projects from current assets to long term assets. The Company concluded inventories of materials for oil and gas projects and prepayments for materials used in oil and gas projects should be treated as long term assets due to their future classification to oil and gas properties once the materials are used in the projects. The correction of these balances had no effect on the previously reported net income. The effects of the restatements were as follows:

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

	<u>As Previously Reported</u>	<u>Effect of Restatement</u>	<u>As Restated</u>
Consolidated Statement of Cash Flows			
For the six months ended September 30, 2007			
Decrease in inventories	\$ 2,115,288	\$ (2,115,288)	\$ -
Increase in prepaid expenses and other assets	(8,058,082)	2,048,966	(6,009,116)
Net cash provided by operating activities	10,774,828	(66,322)	10,708,506
Increase in prepayments for materials used in oil and gas projects	-	(2,048,966)	(2,048,966)
Decrease in inventories for oil and gas projects	-	2,115,288	2,115,288
Net cash used in investing activities	(31,452,902)	66,322	(31,386,580)
Net change in cash and cash equivalents	\$ 35,532,689	\$ -	\$ 35,532,689

Concentration of Credit Risk and Accounts Receivable

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and accounts receivable. The Company places its cash with high credit quality financial institutions. Substantially all of the Company's accounts receivable are from purchasers of oil and gas. Oil and gas sales are generally unsecured. The Company has not had any significant credit losses in the past and believes its accounts receivable are fully collectable. Accordingly, no allowance for doubtful accounts has been provided.

Licenses and contracts

Emir Oil LLP is the operator of the Company's oil and gas fields in Western Kazakhstan. The Government of the Republic of Kazakhstan (the "Government") initially issued the license to Zhanaozen Repair and Mechanical Plant on April 30, 1999 to explore the Aksaz, Dolinnoe and Emir oil and gas fields (the "ADE Block" or the "ADE Fields"). On June 9, 2000, the contract for exploration of the Aksaz, Dolinnoe and Emir oil and gas fields was entered into between the Agency of the Republic of Kazakhstan on Investments and the Zhanaozen Repair and Mechanical Plant. On September 23, 2002, the contract was assigned to Emir Oil LLP. On September 10, 2004 the Government extended the term of the Contract for exploration and License from five years to seven years through July 9, 2007. On February 27, 2007, the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan ("MEMR") granted a second extension of the Company's exploration contract. Under the terms of the contract extension, the exploration period was extended to July 2009 over the entire exploration contract territory. On December 7,

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

2004 the Government assigned to Emir Oil LLP exclusive right to explore an additional 260 square kilometers of land adjacent to the ADE Block, which is referred to as the "Southeast Block." The Southeast Block includes the Kariman field and the Yessen and Borly structures and is governed by the terms of the Company's original contract. On June 24, 2008 the MEMR agreed to extend the exploration stage of the Company's contract from July 2009 to January 2013 in order to permit the Company to conduct additional exploration drilling and testing activities within the ADE Block and the Southeast Block.

On October 15, 2008 the MEMR approved Addendum # 6 to Contract No. 482 with Emir Oil LLP, dated June 09, 2000 extending Emir Oil LLP's exploration territory from 460 square kilometers to a total of 850 square kilometers (approximately 210,114 acres). The additional territory is located to the north and west of the Company's current exploration territory, extending the exploration territory toward the Caspian Sea and is referred to herein as the Northwest Block.

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

Major Customers

During the six months ended September 30, 2008 and 2007, sales to one customer represented 96% of total sales volume. The loss of this customer could have a material adverse affect on the Company, although there is an available market for the Company's crude oil and natural gas production from other purchasers.

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 United States 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.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

Share-based compensation

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

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

Share-based compensation incurred for the six months ended September 30, 2008 and 2007 was \$10,309,559 and \$1,153,914, respectively.

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. 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; however, there is no assurance that this will happen in the near future.

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.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

Export duty

The formula for determining the amount of the crude oil export duty is based on a sliding scale that is tied to the world market price for oil. The amount of the export duty can change with fluctuations in world oil prices. The export duty fees are expensed as incurred and are classified as costs and operating expenses.

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.

Prepayments for materials used in oil and gas projects

The Company periodically makes prepayments for materials used in oil and gas projects. These prepayments are presented as long term assets due to their transfer to oil and gas properties after materials are supplied and the prepayments are closed.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

Inventories

Inventories of equipment for development activities, tangible drilling materials required for drilling operations, spare parts, diesel fuel, and various materials for use in oil field operations are recorded at the lower of cost and net realizable value. Under the full cost method, inventory is transferred to oil and gas properties when used in exploration, drilling and development operations in oilfields.

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

The Company periodically assesses its inventories for obsolete or slow moving stock and records an appropriate provision, if there is any. The Company has assessed inventory at September 30, 2008 and 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.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

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

Liquidation fund

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

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

Other fixed assets

Other fixed assets are valued at 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 as leasehold improvements, which are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the lease.

Other fixed assets of the Company are evaluated annually 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
SEPTEMBER 30, 2008**

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, where not capitalized as part of oil and gas properties.

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 U.S. Dollars and the United States Dollar is therefore its functional currency.

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.

Recent accounting pronouncements

In May 2008, the FASB issued Statement No. 163, “*Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60*”. This Statement requires that an insurance enterprise recognize a claim liability when the insurance enterprise expects, based on the present value of expected net cash outflows to be paid under the insurance contract discounted using a risk-free rate, that a claim loss will exceed the unearned premium revenue. That approach is similar to the recognition approach for some liabilities for future policy benefits relating to a long-duration insurance contract in Statement 60. An insurance enterprise is required to measure the claim liability equal to the present value of expected net cash outflows. Expected net cash outflows are probability-weighted cash flows that reflect the likelihood of all possible outcomes for payments by the insurance enterprise under the insurance contract. Under this Statement, the expected net cash outflows

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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are developed using the insurance enterprise's own assumptions about the likelihood of all possible outcomes based on all information available to the insurance enterprise (including relevant market information). An insurance enterprise is required to provide expanded disclosures about financial guarantee insurance contracts. Those disclosures would focus, in part, on the information included in the risk-management activities used by the insurance enterprise to evaluate credit deterioration in its insured financial obligations, including (1) the groupings or categories used to track insured financial obligations with credit deterioration, (2) the insurance enterprise's policies for placing an insured financial obligation in and monitoring each grouping or category, and (3) financial information about the insured financial obligations included within those groupings and categories. This Statement is effective for financial statements issued for the fiscal years and interim periods 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 May 2008, the FASB issued Statement No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*". This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The Board does not expect that this Statement will result in a change in current practice. However, transition provisions have been provided in the unusual circumstance that the application of the provisions of this Statement results in a change in practice. This Statement is effective after 60 days following the SEC's approval of the PCAOB amendment to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

In March 2008, the FASB issued Statement No. 161, "*Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statements No. 133*". This Statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This disclosure better conveys the purpose of derivative use in terms of the risks that the entity is intending to manage. Disclosing the fair values of derivative instruments and their gains and losses in a tabular format should provide a more complete picture of the location in an entity's financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. Disclosing information about credit-risk-related contingent features should provide information on the potential effect on an entity's liquidity from using derivatives. This Statement requires cross-referencing within the footnotes, which should help users of financial statements locate important information about derivative instruments. This Statement

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is effective for financial statements issued for the fiscal years and interim periods beginning after November 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 Statement No. 160, "*Non-controlling 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 non-controlling 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 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 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

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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.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP FIN) No. 157-2 which extended the effective date for certain nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The Company does not expect the adoption of SFAS No. 157 to have a material impact on the consolidated financial statements.

NOTE 3 - CASH AND CASH EQUIVALENTS

As of September 30, 2008 and March 31, 2008 cash and cash equivalents included:

	<u>September 30, 2008</u>	<u>March 31, 2008</u>
US Dollars	\$ 11,855,572	\$ 17,088,631
Foreign currency	104,376	150,206
	<u>\$ 11,959,948</u>	<u>\$ 17,238,837</u>

As of September 30, 2008 and March 31, 2008 cash and cash equivalents included \$7,550,911 and \$14,203,574 placed in money market funds having 30 day simple yields of 2.00% and 2.58%, respectively.

NOTE 4 - PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets as of September 30, 2008 and March 31, 2008, were as follows:

	<u>September 30, 2008</u>	<u>March 31, 2008</u>
Advances for services	\$ 5,569,038	\$ 3,121,580
Other	886,506	640,658
Reserves against uncollectible advances and prepayments	(346,977)	(346,977)
	<u>\$ 6,108,567</u>	<u>\$ 3,415,261</u>

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NOTE 5 - OIL AND GAS PROPERTIES

Oil and gas properties using the full cost method as of September 30, 2008 and March 31, 2008, were as follows:

	<u>September 30, 2008</u>	<u>March 31, 2008</u>
Cost of drilling wells	\$ 92,719,508	\$ 72,109,470
Professional services received in exploration and development activities	52,149,861	39,229,037
Material and fuel used in exploration and development activities	48,779,866	35,184,595
Subsoil use rights	20,788,119	20,788,119
Geological and geophysical	7,587,467	5,595,496
Deferred tax	7,219,219	7,219,219
Capitalized interest, accreted discount and amortized bond issue costs	5,486,782	3,218,141
on convertible notes issued		
Infrastructure development costs	2,810,708	2,099,444
Other capitalized costs	12,097,958	10,422,580
Accumulated depletion	(19,242,255)	(12,823,130)
	<u>\$ 230,397,233</u>	<u>\$ 183,042,971</u>

The purchase of Emir Oil LLP has been accounted for as a non-taxable business combination. Since goodwill was not recognized in this stock-based subsidiary acquisition involving oil and gas properties, a recognition of a deferred tax liability related to the acquisition increases the financial reporting basis of the oil and gas properties.

NOTE 6 – INVENTORIES FOR OIL AND GAS PROJECTS

As of September 30, 2008 and March 31, 2008 inventories included:

	<u>September 30, 2008</u>	<u>March 31, 2008</u>
Construction material	\$ 14,509,102	\$ 10,155,334
Spare parts	86,653	35,770
Other	1,111,562	817,794
	<u>\$ 15,707,317</u>	<u>\$ 11,008,898</u>

NOTE 7 - CONSTRUCTION IN PROGRESS

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

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In accordance with terms of the Agreement, as of September 30, 2008 and March 31, 2008, the Company has made payments of \$7,761,561 and \$7,261,561, respectively, for development of project documentation, purchase of equipment, transportation and customs, and construction of a gas pipe-line.

NOTE 8 - LONG TERM VAT RECOVERABLE

As of September 30, 2008 and March 31, 2008 the Company had long term VAT recoverable in the amount of \$9,898,226 and \$8,106,397, 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 cannot estimate which part of this asset will 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. During the six months ended September 30, 2008 the Company received refunds of VAT in the amount of \$1,860,541.

NOTE 9 - CONVERTIBLE NOTES PAYABLE

On July 16, 2007 the Company completed the private placement of \$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 carry a 5% coupon and 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 Notes are convertible into the Company's common shares. 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. If the conversion price is adjusted pursuant to the conversion provisions, the conversion price shall not be adjusted below \$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.

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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 on a poll 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

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 share price 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.

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The net proceeds from the issuance of the Notes have been used for further exploration 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 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 under the Securities Act or any successor provision thereto;
- (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.

On October 19, 2007 the Company filed with the U.S. Securities and Exchange Commission ("SEC") a registration statement on Form S-3, as amended on October 25, 2007 and January 23, 2008, (the "Shelf Registration Statement") registering the Covered Securities for resale. The Shelf Registration Statement was declared effective by the SEC on January 25, 2008.

As of September 30, 2008 and March 31, 2008 the Company has accrued interest of \$641,667 and \$641,667, respectively, relating to the convertible notes outstanding. The Company has 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 \$925,172 and \$535,455 as of September 30, 2008 and March 31, 2008, respectively. The carrying value of convertible notes will be accreted to the redemption value of \$64,323,785.

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As of September 30, 2008 and March 31, 2008 the convertible notes payable amount is presented as follows:

	<u>September 30, 2008</u>	<u>March 31, 2008</u>
Convertible notes redemption value	\$ 64,323,785	\$ 64,323,785
Unamortized discount	(3,398,613)	(3,788,330)
	<u>\$ 60,925,172</u>	<u>\$ 60,535,455</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 \$1,500,000 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 \$389,717 was capitalized to oil and gas properties for the six months ended September 30, 2008.

NOTE 10 - LIQUIDATION FUND

A reconciliation on the Liquidation Fund (Asset Retirement Obligation) at September 30, 2008 and March 31, 2008 is as follows:

	<u>Total</u>
At March 31, 2008	\$ 3,728,531
Accrual of liability	449,575
Accretion expenses	<u>204,356</u>
At September 30, 2008	<u>\$ 4,382,462</u>

Management believes that the liquidation fund should be accrued for future abandonment costs of 22 wells located in the Dolinnoe, Aksaz, 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 September 30, 2008, undiscounted expected future cash flows that will be required to satisfy the Company's obligation by 2013 for the Dolinnoe, Aksaz, Emir and Kariman fields, respectively, are \$6,703,585. After application of a 10% discount rate, the present value of the Company's liability at September 30, 2008 and March 31, 2008 was \$4,382,462 and \$3,728,531, respectively.

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NOTE 11 - SHARE AND ADDITIONAL PAID IN CAPITAL

Share-Based Compensation

During the fiscal year ended March 31, 2005 the shareholders of the Company approved an incentive stock option plan (the "2004 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 2004 Plan. The Board determines the terms of options and other awards made under the 2004 Plan. Under the terms of the 2004 Plan, no incentive stock options shall be granted with an exercise price at a discount to the market.

On July 17, 2008 the shareholders of the Company approved the BMB Munai, Inc. 2009 Equity Incentive Plan ("2009 Plan") to provide a means whereby the Company could attract and retain employees, directors, officers and others upon whom the responsibility for the successful operations of the Company rests through the issuance of equity awards. 5,000,000 common shares are reserved for issuance under the 2009 Plan. Under the terms of the 2009 Plan the Board determines the terms of the awards made under the 2009 Plan, within the limits set forth in the 2009 Plan guidelines.

Common Stock Grants

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 full 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

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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. Compensation expense in the amount of \$1,135,778 was recognized in the Consolidated Statement of Operations and Consolidated Balance Sheet for the six months ended September 30, 2008.

As of September 30, 2008, there was \$1,703,667 of total unrecognized non-cash 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 0.75 years.

As further discussed in Note 14, on June 24, 2008, the Company was granted an extension of its existing exploration contract from July 2009 to January 2013. In connection therewith, the Company became obligated to issue 1,750,000 common shares to a consultant as the success fee for assisting the Company to obtain the extension. The shares are valued at \$6.13 per share, which was the closing market price of Company's shares on June 24, 2008.

On September 16, 2008 this consulting agreement between the Company and the consultant discussed in the preceding paragraph was revised and parties agreed to decrease number of shares issued for services provided by 500,000 shares. The non-cash compensation expenses for consulting services were reversed in the amount of \$3,065,000 (500,000 shares valued at \$6.13 per share which was the closing market price of Company's shares on June 24, 2008) for the three months ended September 30, 2008.

On July 17, 2008 at the recommendation of the compensation committee of the board of directors, the Company's board of directors approved, subject to certain vesting requirements, restricted stock awards to certain executive officers, directors, employees and outside consultants of the Company pursuant to the BMB Munai, Inc. 2004 Stock Incentive Plan (the "2004 Plan"). The total number of shares granted was 1,330,000. Grants were made to 14 people, 12 of whom are non-U.S. persons. The restricted stock grants were made without registration pursuant to Regulation S of the Securities Act Rules and/or Section 4(2) under the Securities Act of 1933. The restricted stock grants awarded to Mr. Cherdabayev, Mr. Tashtitov and Mr. Tolmakov were awarded on the same terms and subject to the same vesting requirements. More specifically, the restricted stock grants will vest to the grantees at such time as either of the following events occurs (the "Vesting Events"): i) the one-year anniversary of the grant date; or ii) the occurrence of an Extraordinary Event. An "Extraordinary Event" is defined in the restricted stock agreement as any

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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 full 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 restricted stock grant awarded to Mr. Kulumbetov is subject to the same vesting requirements as those listed above. Initially, the grant to Mr. Kulumbetov included a requirement that the Company satisfactorily complete its annual work program within the Company's annual budget, as amended. This performance requirement was subsequently deleted from his stock grant. The shares representing the restricted stock grants shall be issued as soon as practicable, will be deemed outstanding from the date of grant, and will be held in escrow by the Company subject to the occurrence of a Vesting Event. The grantees will 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.

Non-cash compensation expense in the amount of \$1,511,281 was recognized in the Consolidated Statement of Operations and Consolidated Balance Sheet for the six month ended September 30, 2008.

As of September 30, 2008, there was \$5,843,619 of total unrecognized non-cash 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 0.75 years.

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Stock Options

Stock options outstanding and exercisable as of September 30, 2008, were as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
As of March 31, 2008	1,170,583	\$ 5.33
Granted	-	-
Exercised	-	-
Expired	-	-
As of September 30, 2008	1,170,583	\$ 5.33

Additional information regarding outstanding options as of September 30, 2008, was as follows:

<u>Options Outstanding</u>				<u>Options Exercisable</u>	
<u>Range of Exercise Price</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Contractual Life (years)</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>
\$ 4.00 – \$ 7.40	1,170,583	\$ 5.33	4.66	1,170,583	\$ 5.33

Warrants

On November 26, 2003, the Company granted warrants to placement agents in connection with funds raised on the Company's behalf. These warrants granted the placement agents the right to purchase up to 142,857 shares of the Company's common stock at an exercise price of \$3.50 per share. These warrants have been offset to the proceeds as a cost of capital. On July 28, 2008, 14,286 of these warrants were exercised.

Warrants outstanding and exercisable as of September 30, 2008 were as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
As of March 31, 2008	52,380	\$ 3.50
Granted	-	-
Exercised	14,286	3.50
Expired	-	-
As of September 30, 2008	38,094	\$ 3.50

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Additional information regarding warrants outstanding as of September 30, 2008 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	38,094	\$3.50	5.01	38,094	\$3.50

NOTE 12 – REVENUES

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 and currently are significantly lower than the prevailing world market price.

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Export sales	\$ 22,594,210	\$ 12,367,488	\$ 56,915,977	\$ 23,948,446
Domestic sales	163,950	396,909	669,407	396,909
		\$		
	<u>\$ 22,758,160</u>	<u>12,764,397</u>	<u>\$ 57,585,384</u>	<u>\$ 24,345,355</u>

NOTE 13 – EXPORT DUTY

On April 18, 2008 the government of the Republic of Kazakhstan introduced an export duty on several products (including crude oil). The Company became subject to the duty beginning in June 2008. The export duty for six month ended September 30, 2008 amounted to \$5,739,900, which is being reported as a part of operating expenses. The formula for determining the amount of the crude oil export duty is based on a sliding scale that is tied to several factors, including the world market price for oil. The amount of export duty can change with fluctuations in world oil prices.

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NOTE 14 - CONSULTING EXPENSES

On November 19, 2007 the Company entered into the consulting agreement with Caspian Energy Consulting Ltd (“Consultant”). Upon the execution of the consulting agreement, the Company paid the Consultant \$1,000,000. The consulting agreement also provided that in the event the Consultant was successful in negotiating an extension of the term of the Company’s existing exploration contract beyond July 2009, the Company would issue 500,000 common shares for each additional year of exploration status extension granted beyond July 2009.

On June 24, 2008, the Company was granted an extension of its existing exploration contract from July 2009 to January 2013. The compensation expenses for consulting services were recorded in the amount of \$11,727,500, which represents \$1,000,000 paid upon the execution of consulting agreement and non-cash share-based compensation in the amount of \$10,727,500 as the successful fee for extension of time period for exploration. The share-based compensation represents 1,750,000 (500,000 shares for each additional year of exploration status extension) valued at \$6.13 per share which was the closing market price of Company’s shares on June 24, 2008.

On September 16, 2008 this consulting agreement was revised and parties agreed to decrease number of shares issued for services provided by 500,000 shares to 1,250,000 shares. The non-cash compensation expenses for consulting services were reversed in the amount of \$3,065,000 (500,000 shares valued at \$6.13 per share which was the closing market price of Company’s shares on June 24, 2008) for the three months ended September 30, 2008.

The agreement also has a provision for the consultant to pursue new exploration contracts for new territories, which is described in Note 19.

NOTE 15 – DISGORGEMENT FUNDS RECEIVED

In June 2008 the Company received a letter from a shareholder of the Company stating that the shareholder was returning realized profits from their trades of shares of the Company’s common stock during the six month period preceding May 22, 2008 (the “Timeframe”). The shareholder also stated in the letter that during this Timeframe the shareholder was subject to Section 16 of the United States Security Exchange Act of 1934 (the “Exchange Act”) because they owned more than 10% of the shares of Company common stock. As such, the shareholder decided to voluntarily comply with Section 16(b) of the Exchange Act by returning the realized profits to the Company in the amount of \$1,650,293, (the “Disgorgement Amount”) which is net of amounts paid for brokerage commissions on each of the executed trades during the Timeframe. The Company had received the Disgorgement Amount in full before June 30, 2008.

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NOTE 16 – INCOME TAXES

The Company's consolidated pre-tax income is comprised primarily from operations in the Republic of Kazakhstan. Pre-tax losses from United States operations are also included in consolidated pre-tax income.

According to the Exploration Contract in the Republic of Kazakhstan, for income tax purposes the Company can capitalize the exploration and development costs and deduct all revenues received during the exploration stage to calculate taxable income. Therefore, the Exploration Contract allows the Company to be exempt from Kazakhstan corporate income tax for the period of the exploration phase.

Earnings of the Company's foreign subsidiaries, since acquisition, have been undistributed. Those earnings are considered to be indefinitely reinvested and, accordingly, no U.S. federal and state income taxes have been provided thereon. Upon distribution of those earnings, in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the Republic of Kazakhstan. Determination of the amount of unrecognized deferred U.S. income tax liability is not practical because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits may be available to reduce a portion of the U.S. tax liability.

No provision for income taxes has been recorded by the Company for the six months ended September 30, 2008.

NOTE 17 - EARNINGS PER SHARE INFORMATION

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

	Three months ended		Six months ended	
	2008	September 30, 2007	2008	September 30, 2007
Net income	\$ 9,830,026	\$ 4,937,073	\$ 23,151,349	\$ 8,819,330
Basic weighted-average common shares outstanding	47,525,050	44,690,657	46,219,458	44,690,657
Effect of dilutive securities				
Warrants	11,520	58,384	16,389	56,530
Stock options	134,749	217,292	179,061	209,411
Dilutive weighted average common shares outstanding	47,671,319	44,966,333	46,414,908	44,956,598
Basic income per common share	<u>\$ 0.21</u>	<u>\$ 0.11</u>	<u>\$ 0.50</u>	<u>\$ 0.20</u>
Dilutive income per common share	<u>\$ 0.21</u>	<u>\$ 0.11</u>	<u>\$ 0.50</u>	<u>\$ 0.20</u>

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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The dilutive weighted average common shares outstanding for the three and six months ended September 30, 2008 does not include the effect of the potential conversion of the Notes because the average market share price for three and six months ended September 30, 2008 was lower than potential conversion price of the convertible notes for this period.

The dilutive weighted average common shares outstanding for the three and six months ended September 30, 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 18 - RELATED PARTY TRANSACTIONS

The Company leases ground fuel tanks and other oil fuel storage facilities and warehouses from Term Oil LLC. The lease expenses for the six months ended September 30, 2008 and 2007, totaled to \$84,730 and \$60,776, respectively. Also the Company had accounts payable to Term Oil LLC in the amount of \$125,554 and \$53,624 as of September 30, 2008 and March 31, 2008, respectively. One of our significant shareholders and the director of Emir Oil LLP is the owner of Term Oil LLC.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

Consulting Agreement

In November 2007 the Company entered into a consulting agreement with Caspian Energy Consulting Ltd. ("Consultant"). In addition to extending the existing exploration contracts, which is described in Note 14, the consulting agreement provides that in the event the Consultant is successful in execution and delivery to the Company of a new exploration contract for a new contract territory, the Company will pay the amount of \$4,000,000. The consulting agreement shall remain in force until terminated by either party.

On October 15, 2008 the MEMR increased Emir Oil LLP's contract territory from 460 square kilometers to 850 square kilometers. In connection with this extension, and any other territory extensions or acquisitions, the Consultant will be paid a share payment in restricted common stock for resources and reserves associated with any acquisition. The value of any acquisition property will be determined by reference to a 3D seismic study and a resource/reserve report by a qualified independent petroleum engineer acceptable to the Company. The acquisition value ("Acquisition Value") will be equal to the total barrels of resources and reserves, as defined and determined by the engineering report multiplied by the following values:

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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Resources at \$.50 per barrel;
Probable reserves at \$1.00 per barrel; and
Proved reserve at \$2.00 per barrel.

The number of shares to be issued to the Consultant shall be the Acquisition Value divided by the higher of \$6.50 or the average closing price of the Company's trading shares for the five trading days prior to the issuance of the reserve/resource report, provided that in no event shall the total number of shares issuable to the Consultant exceed more than a total of 4,000,000 shares.

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 Southeast Block 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 Southeast Block, the Company will be required to begin repaying these historical investments to the Government. The terms of repayment will be negotiated at the time the Company is granted commercial production rights.

Capital Commitments

Prior to the extension of the exploration period granted to Emir Oil LLP in June 2008, the terms of its subsurface exploration contract, required Emir Oil to spend a total of \$48.8 million in exploration activities on the ADE Block and Southeast Block through July 2009. Through September 30, 2008 the Company had spent a total of \$245.3 million in exploration activities.

In connection with the extensions granted in June and October 2008, the Company's capital expenditure requirements have been revised. To retain its rights under the contract, the Company must spend \$10.4 million by January 9, 2010. The Company must spend an additional \$21.3 between January 10, 2010 and January 9, 2011, \$27.2 million between January 10, 2011 and January 9, 2012 and \$14.9 million between January 10, 2012 and January 9, 2013.

In addition to the minimum capital expenditure requirement, the Company must also comply with the other terms of the work program associated with the contract, which includes the drilling of at least ten new wells by January 9, 2013. 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. The recent addendum to the Contract granting the territory extension also requires us to:

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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- make additional payments to the liquidation fund, stipulated by the Contract;
- make a one-time payment in the amount of \$200,000 to the Astana Fund by the end of 2010; and
- make annual payments to social projects of the Mangistau Oblast in the amounts of \$50,000 from 2009 to 2012.

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.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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The Company has retained the law firm of Bracewell & Giuliani LLP in New York, New York to represent us 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 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 appealed the court's refusal to stay the litigation pending arbitration in Kazakhstan. On September 28, 2008, the Court of Appeals issued a decision in which it (a) reversed the district court's refusal to stay the claim for specific performance pending arbitration and (b) affirmed the balance of the district court's order.

NOTE 20 - FINANCIAL INSTRUMENTS

As of September 30, 2008 and March 31, 2008 cash and cash equivalents included deposits in Kazakhstan banks in the amount \$807,566 and \$2,211,352, respectively, and deposits in U.S. banks in the amount of \$11,152,382 and \$15,027,485, 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 September 30, 2008 and March 31, 2008. 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 September 30, 2008 and March 31, 2008 the Company made advance payments to Kazakhstan companies and government bodies in the amount \$16,184,379 and \$21,266,329, respectively. As of September 30, 2008 and March 31, 2008 restricted cash reflected in the long-term assets consisted of \$622,697, 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, 2008.

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 including, among others, the following risk factors:

- substantial or extended decline in oil prices;
- inaccurate reserve estimates;
- inability to enter a production contract with the Republic of Kazakhstan;
- drilled prospects may not yield oil or natural gas in commercial quantities;
- substantial losses or liability claims as a result of operations;
- insufficient funds to meet our liquidity needs
- complex laws that could affect the cost of doing business;
- substantial liabilities to comply with environmental laws and regulations;
- the need to replenish older depleting oil and natural reserves with new oil and natural gas reserves;
- inadequate infrastructure in the region where our properties are located;
- unavailability or high cost of drilling rigs, equipment, supplies, personnel and oil field services;
- unavailability or high price of transportation systems;
- competition in the oil and gas industry; and
- adverse government actions, imposition of new, or increases in existing, taxes and duties, political risks, expropriation of assets and risks of civil war, primarily in the Republic of Kazakhstan.

The above factors may affect future results, performance, events and the accuracy of any forward-looking statement. This list is illustrative but not exhaustive. In addition, new risks and uncertainties may arise from time to time. Accordingly, readers should not place undue reliance on any forward-looking statement.

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 850 square kilometers in western Kazakhstan. Our contract grants us the right to explore and develop the ADE Block, which includes the Aksaz, Dolinnoe and Emir oil and gas fields, the Southeast Block, which includes the Kariman oil and gas field and the Borly and Yessen structures, and the newly granted territory referred to herein as the Northwest Block. The ADE Block, the Southeast Block and the Northwest Block 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 exploration stage. During this stage the primary focus is on the search for commercial discoveries, i.e., discoveries of sufficient quantities of oil and gas to make it commercially feasible to pursue execution of, or transition to, a commercial production contract with the government.

As discussed above, we are currently engaged in exploration 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 within 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 until July 9, 2009. Thereafter our work program year end changes to January 9 of each year. Therefore our work program year does not coincide with our fiscal year. As a result these timing differences, the amounts reflected in the table below 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.

<u>Amount of Expenditure</u>	<u>Mandated by Contract</u>	<u>Actually Made</u>
Prior to July 2007	\$40,200,000	\$104,750,000
July 2007 to July 2008	\$8,480,000	\$115,040,000
July 2008 to July 2009	\$1,845,000	\$ 25,480,000*
July 2009 to January 2010	\$8,565,000	\$ -
January 2010 to January 2011	\$21,520,000	\$ -
January 2011 to January 2012	\$27,300,000	\$ -
January 2012 to January 2013	\$14,880,000	\$ -
Total	\$122,790,000	\$245,270,000

* Investment as of September 30, 2008.

As reflected in the above table, in connection with the extension of the term and territory of our exploration contract, we agreed to expend not less than \$74.1 million dollars in additional work program activities through January 9, 2013.

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 significantly exceeded the minimum expenditure requirement in each period of the contract and have more than doubled the total minimum capital expenditure requirement during the exploration stage.

In addition to mandatory minimum capital expenditures in each year, exploration contracts typically require the contract holder to drill a certain number of wells in each structure for which it plans to seek commercial production rights.

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 requires during exploration stage is generally determined by the number of fields or structures identified by the seismic studies done on a territory. 3D seismic studies completed on the ADE Block and the Southeast Block, have identified six potential fields or structures. We plan to perform 3D seismic studies on the Northwest Block to identify potential structures in that Block.

To date, we have drilled a total of 22 wells; - four wells in the Aksaz field, six wells in the Dolinnoe field, three wells in the Emir field and nine wells in the Kariman field. We also have one well in progress in each of the Aksaz and Kariman fields.

Pursuant to the terms of the extensions of our exploration contract, we will be required to drill not less than ten new wells, in addition to those that are currently in progress, by January 9, 2013, to determine the existence of commercially producible reserves within the various structures in our license territory. In addition to these wells, we anticipate we will be required to drill at least three wells in each structure that we intend to move to commercial production.

Establishing the Existence of Commercially Producing Reserves

Establishing the existence of commercially producible 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 whether commercially producible reserves exist in any of those fields. We have not drilled wells in the other structures in the Southeast Block or in the Northwest Block. The failure to establish commercially producible reserves within any particular field would not preclude us from applying for commercial production rights to other fields within our contract territory where we establish commercially producible 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 commercial 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 future commercial production and ongoing development of each field.

Taxes, Royalties and Duties

During exploration stage, we have the right to sell the oil and natural gas we recover during test production. As noted above, under our old exploration contract, we had been granted tax stability and were not required to pay export taxes. We were, however, required to pay a royalty at rates tied to annual crude oil production. Currently we are paying royalty at a rate of 2%. In connection with the extension of the term of our exploration contract and the adoption of a new tax code in the Republic of Kazakhstan, we will be required to renegotiate the taxes and royalties we pay. The Government of the Republic of Kazakhstan has stated that contract stability will be abolished from all agreements except Production Sharing Agreements. Therefore, we assume we will lose our tax stability and will be required to pay all applicable taxes on sales outside of the Kazakhstan domestic market. Until the new tax code is adopted, it is difficult to predict the rate at which we will be taxed and what royalty we will be required to pay.

As noted above, in June 2008 we became subject to a crude oil export duty on all oil sold outside the Kazakhstan domestic market. The formula for determining the amount of the crude oil export duty is based on a sliding scale that is tied to the world market price for oil.

We anticipate the imposition of the crude oil duty and the rent export tax will have a significant impact on our results of operations at least until the end of the calendar year when a new tax code may be adopted by the Republic of Kazakhstan. For instance, the export duty we paid during the period from the beginning of June 2008 to September 30, 2008 was approximately \$5,379,900, or 17% of revenue during that period.

The export duty fluctuates with world oil prices. However, it is adjusted only quarterly. As a result, the duty lags behind world market price. In the current market where world oil price has dropped significantly in the past 60 days, we expect the export duty, as a percentage of revenue, to be much higher than it was in the period from June 2008 to September 2008.

Drilling Operations

During the quarter ended September 30, 2008 we have been engaged in drilling operations on 4 wells: Aksaz-2 and 6, Kariman-11 and Dolinnoe-7.

We completed drilling of Dolinnoe-7 on September 11, 2008 to a depth of 3,756 meters. We completed drilling of Aksaz-2 on September 25, 2008 to a depth of 4,292 meters. We have completed drilling of Kariman-11 on November 2, 2008 to a depth of 3,580 meters. Upon completion of drilling, we have commenced extensive testing activities on each well, including necessary geological studies and tests. These activities are ongoing.

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 September 30, 2008.

	Company-operated		Non-operated		Total	
	Gross	Net	Gross	Net	Gross	Net
Oil	22	22	-	-	22	22
Natural Gas	-	-	-	-	-	-
Total	22	22	-	-	22	22

As of the fiscal quarter ended September 30, 2008, each of the 22 wells identified above was in test production, testing or workover. The Dolinnoe-7 well was perforated and commenced test production on September 26, 2008. This well produced for 5 days prior to the end of the reporting period. Aksaz-2 well was perforated on October 22, 2008, hence production from this well is not included in the production for reporting period.

According to the laws of the republic of Kazakhstan, we are required to test every prospective target 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 target to target 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 22 wells.

Well	Single Interval Production Rate for the Four Months ended October 31, 2008	Diameter Choke Size
Aksaz -1	44-57 bpd	4 mm
Aksaz -2	25-126 bpd	4 mm
Aksaz-3	302-346 bpd	4 mm
Aksaz -4	50 - 57 bpd	4 mm
Dolinnoe -1	50- 151 bpd	8 mm
Dolinnoe -2	13 - 245 bpd	2 mm
Dolinnoe -3	6-138 bpd	9 mm
Dolinnoe -5	0- 245 bpd ⁽¹⁾	5 mm
Dolinnoe -6	13-57 bpd	14 mm
Dolinnoe -7	113- 396 bpd	4 mm
Emir -1	0- 31 bpd	-
Emir - 2	0- 63 bpd ⁽³⁾	-
Emir -6	0-94 bpd ⁽⁴⁾	-
Kariman -1	44-111 bpd ⁽⁵⁾	-
Kariman -2	302- 704 bpd	4 mm
Kariman -3	0 -82 bpd	-
Kariman -4	19- 352 bpd	6 mm
Kariman -5	9- 38 bpd ⁽⁶⁾	5 mm
Kariman -6	371- 629 bpd	5 mm
Kariman -7	409-554 bpd	7 mm
Kariman -8	390 - 616 bpd	6 mm
Kariman -10	25-377 bpd ⁽⁷⁾	4 mm

- (1) A first target was tested on March 27, 2008. The first week's production was 110 bpd. In April it dropped to 63 bpd. For a couple of days the well was shut-in for a pressure build-up. After that the production dropped to 26 bpd. We carried out an acid injection and hydro-impulsive cleaning and aeration, however, it hasn't yielded significant results. We conducted bottom-hole zone cleaning to stimulate oil flow in August 2008. At the present moment, the well is producing sporadically. We intend to complete a comprehensive study of oil flow stimulation activities, including installation of various pumps.
- (2) We are in the process of researching various available options for bringing back production from this well.
- (3) This well was completed during the quarter ended March 31, 2008. At the present moment, the well produces sporadically. We plan to install a downhole pump in this well when a workover rig becomes available. We expect the well to commence steady production upon completion of above-mentioned activities.
- (4) We carried out a hydraulic fracturing (breakdown) on this well during the quarter ended June 30, 2008. Production from this well requires installation of downhole pump which we plan to complete during the quarter ending December 31, 2008.
- (5) We have installed a downhole pump at the Kariman-1 well which resulted in steady production flow over the quarter ending September 30, 2008. We expect to alter pump characteristics to increase production once we complete activities to increase the oil-preparation capabilities of the group unit at the Kariman field during the quarter ending December 31, 2008.
- (6) We expect to install a downhole pump at the Kariman-5 well when a workover rig becomes available during the quarter ending December 31, 2008.
- (7) During the quarter ending September 30, 2008, we conducted extensive studying of the lower interval that was perforated. We expect to perforate the next upper interval during the quarter ending December 31, 2008, pending workover rig availability.

We are currently in the process of revising our planned capital expenditure program for the remainder of the current and the upcoming fiscal year to significantly reduce our planned capital expenditures. This decision is based on several factors.

During the past several years we have pursued an aggressive capital expenditure and drilling program. We pursued this aggressive strategy, in part, because if we did not complete our exploration activities and move our contract territory to commercial production by July 2009, our rights to the contract territory could have been terminated and reverted back to the Government of the Republic of Kazakhstan. With the grant of the extension of time to complete exploration activities, to January 2013, we now have more flexibility in the pace of our exploration drilling efforts and application for transition to commercial production.

As a result of reduced world oil prices and, correspondingly, revenues, we do not have sufficient capital available to continue to support the aggressive drilling strategy we pursued during the past several years. The reduction in anticipated revenues is due to several factors. The material drop in world oil prices has resulted in lower than expected revenue from production. The wells we have recently completed have not generated the production we anticipated. The decline curve on existing production has, in many cases, been more steep than expected, which has also contributed to lower production and revenue compared to expectations. And, finally, the imposition by the Republic of Kazakhstan of the export duty on all oil sold outside the domestic market in Kazakhstan, has had the effect of reducing our income by about 20%.

Given the foregoing, should current conditions persist we believe it may be more economically sound to significantly reduce our capital expenditures program in favor of spending more time and effort in stabilization and trying to increase production from our existing wellstock.

Results of Operations

Three months ended September 30, 2008, compared to the three months ended September 30, 2007.

Revenue and Production

The following table summarizes production volumes, average sales prices and operating revenue for our oil and natural gas operations for the three months ended September 30, 2008 and the three months ended September 30, 2007.

**Three months ended
September 30, 2008
to the three months ended
September 30, 2007**

	For the three months ended September 30, 2008	For the three months ended September 30, 2007	Three months ended September 30, 2008 to the three months ended September 30, 2007	
			\$ Increase (Decrease)	% Increase (Decrease)
Production volumes:				
Natural gas (Mcf)	-	-	-	-
Natural gas liquids (Bbls)	-	-	-	-
Oil and condensate (Bbls)	310,999	215,953	95,046	44%
Barrels of Oil equivalent (BOE)	310,999	215,953	95,046	44%
Sales volumes:				
Natural gas (Mcf)	-	-	-	-
Natural gas liquids (Bbls)	-	-	-	-
Oil and condensate (Bbls)	309,521	215,123	94,398	44%
Barrels of Oil equivalent (BOE)	309,521	215,123	94,398	44%
Average Sales Price ⁽¹⁾				
Natural gas (\$ per Mcf)	-	-	-	-
Natural gas liquids (\$ per Bbl)	-	-	-	-
Oil and condensate (\$ per Bbl)	\$ 73.53	\$ 59.34	\$ 14.19	24%
Barrels of Oil equivalent (\$ per BOE)	\$ 73.53	\$ 59.34	\$ 14.19	24%
Operating Revenue:				
Natural gas	-	-	-	-
Natural gas liquids	-	-	-	-
Oil and condensate	\$ 22,758,160	\$ 12,764,397	\$ 9,993,763	78%
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 September 30, 2008, or the three months ended September 30, 2007.

Revenues. We generate revenue under our exploration contract from the sale of oil recovered during test production. During the three months ended September 30, 2008 our oil production increased 44% compared to the three months ended September 30, 2007. This significant increase in production is primarily attributable to the fact that we had twenty wells in testing or test production during all or some portion of the three months ended September 30, 2008 compared to thirteen wells during all or some portion of the three months ended September 30, 2007.

During the three months ended September 30, 2008 we realized revenue from oil sales of \$22,758,160 compared to \$12,764,397 during the three months ended September 30, 2007. One contributing factor to the 78% increase in revenue was a 44% 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 three months ended September 30, 2008 compared to the three months ended September 30, 2007. During the three months ended September 30, 2008 and 2007 we exported 98% and 92% of our oil, respectively to the world markets and realized the world market price for those sales. Revenue from oil sold to the world markets made up 99% and 97% of total revenue, respectively, during the three months ended September 30, 2008 and 2007. We currently anticipate revenues will be flat or lower in upcoming quarters for several reasons.

As discussed above, our revenue is sensitive to changes in the price we receive for our oil. Oil prices fluctuate 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. In the past 60 days world oil prices have dropped materially. This reduction in price has significantly reduced revenue from oil sales. Should world oil prices remain lower, we will continue to realize lower revenue.

In connection with our contract extension, the MEMR may require us to sell up to 20% of our oil production to the domestic market in Kazakhstan. Historically, sales to the domestic market in Kazakhstan would have resulted in a significant reduction in revenue and income from operations because the domestic market price has been markedly lower than world oil prices. As the gap between world oil prices and domestic prices shrinks, we may actually find it more financially attractive to sell our oil to the domestic market, at least in the short-term because sales to the domestic market are not subject to the export duty. We are currently investigating the possibility and impacts of increasing sales to the domestic market.

In addition to lower world oil prices, we also anticipate revenue to be lower as a result of lower production. Given the decline rates we are currently experiencing in our wells, coupled with the anticipated reduction in drilling of new wells, unless we are able to increase production from our existing well stock, we anticipate that we will begin to experience declining production in upcoming quarters. This too will lead to lower revenue.

Costs and Operating Expenses

The following table presents details of our expenses for the three months ended September 30, 2008 and 2007:

	For the three months ended September 30, 2008	For the three months ended September 30, 2007
Expenses:		
Export duty	\$ 4,386,983	\$ -
Oil and gas operating ⁽¹⁾	2,274,862	1,190,481
General and administrative	6,247,879	3,591,491
Depletion ⁽²⁾	3,085,836	1,256,318
Accretion expenses	108,398	63,691
Amortization and depreciation	83,081	56,371
Consulting expenses	(3,065,000)	-
Total	\$ 13,122,039	\$ 6,158,352
Expenses (\$ per BOE):		
Oil and gas operating ⁽¹⁾	7.35	5.53
Depletion ⁽²⁾	9.97	5.84

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

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

Export Duty. On April 18, 2008 the government of the Republic of Kazakhstan introduced an export duty on several products (including crude oil). We became be subject to the duty in June 2008. The export duty for three month ended September 30, 2008 amounted to \$4,386,983. The formula for determining the amount of the crude oil export duty is based on a sliding scale that is tied to the world market price for oil. The amount of the export duty can change with fluctuations in world oil prices. Fluctuations in the export duty, however, lag behind fluctuations in world oil prices by about 90 days. We anticipate that the export duty for the future fiscal quarters will fluctuate in proportion to our realized export revenues.

Oil and Gas Operating Expenses. During the three months ended September 30, 2008 we incurred \$2,274,862 in oil and gas operating expenses compared to \$1,190,481 during the three months ended September 30, 2007. This significant increase is the result of increased production volumes and other factors, including increased royalty, salary, production and transportation expenses.

During the three months ended September 30, 2008 royalty paid to the Government increased by \$437,445 or 170% compared to the three months ended September 30, 2007. The primary reason for the increase in royalty is two-fold. During the three months ended September 30, 2008 oil production increased 44% and our average sales price per barrel increased 24% as a result of exporting nearly all of our oil to the world markets. 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 three months ended September 30, 2008 payroll and related payments to production personnel increased \$123,826 or 103% compared to the three months ended September 30, 2007. As a result of increased production volume, we retained more production personnel during the three months ended September 30, 2008 than during the three months ended September 30, 2007.

Transportation expenses increased \$603,610 or 82% as a result of the increased volume of oil we produced and transported. We anticipate transportation expenses will continue to fluctuate with the production volumes.

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.

Oil and gas operating expenses increased 91% during the three months ended September 30, 2008 compared to the three months ended September 30, 2007. Expense per BOE increased 33% during the three months ended September 30, 2008. Expense per BOE increased as a result of increased production expenses. During the three months

ended September 30, 2007 we sold 215,123 barrels of oil, during the three months ended September 30, 2008 we sold 309,521 barrels of oil. As expense per BOE is a function of total expense divided by the number of barrels of oil sold, the 44% increase in sales volume less than offset the 91% increase in expenses resulting in a 33%, or \$1.82, increase in oil and gas operating expense per BOE.

General and Administrative Expenses. General and administrative expenses during the three months ended September 30, 2008 were \$6,247,879 compared to \$3,591,491 during the three months ended September 30, 2007. This represents a 74% increase in general and administrative expenses. This increase in general and administrative expenses was the result of several factors such as increased payroll and related costs, rent expense, taxes and professional services.

We recognized non-cash compensation expense of \$2,079,170 during the three months ended September 30, 2008 resulting from restricted stock grants made to employees. By comparison, during the three months ended September 30, 2007 we recognized the non-cash compensation expense in the amount of \$576,957 for restricted stock grants issued to employees and outside consultants.

The increase in general and administrative expense during the three months ended September 30, 2008 compared to the three months ended September 30, 2007 was primarily the result of:

- a 49% increase in payroll and related costs as we hired additional administrative personnel to fulfill business needs, increased employee pay rates for existing employees;
- a 73% increase in rent expense from renting special equipment, apartments and additional vehicles;
- a 145% increase in taxes resulting from environmental payments; and
- a 16% increase in professional services resulting from legal fees incurred in our ongoing litigation.

Depletion. Depletion expense for the three months ended September 30, 2008 increased by \$1,829,518 compared to the three months ended September 30, 2007. The major reason for this increase in depletion expense was a 44% increase in sales volume during in the three months ended September 30, 2008 compared to the three months ended September 30, 2007. The increase in depletion expense was also attributable to the fact that we drilled additional wells, continued workover on existing wells and developed additional infrastructure during the three months ended September 30, 2008.

Amortization and Depreciation. Depreciation and amortization expense for the three months ended September 30, 2008 increased 47% compared to the three months ended September 30, 2007. The increase resulted from purchases of fixed assets during the quarter.

Consulting Expense. On June 24, 2008, the Company was granted an extension of its existing exploration contract from July 2009 to January 2013. The compensation expenses for consulting services were recorded in the amount of \$11,727,500, which represents \$1,000,000 paid upon the execution of consulting agreement and non-cash share-based compensation in the amount of \$10,727,500 as the successful fee for extension of time period for exploration. The share-based compensation represents 1,750,000 (500,000 shares for each additional year of exploration status extension) valued at \$6.13 per share which was the closing market price of Company's shares on June 24, 2008.

On September 16, 2008 this consulting agreement was revised and parties agreed to decrease number of shares issued for services provided by 500,000 shares. The non-cash compensation expenses for consulting services were reversed in the amount of \$3,065,000 (500,000 shares valued at \$6.13 per share which was the closing market price of Company's shares on June 24, 2008) for the three months ended September 30, 2008.

Income from Operations. During the three months ended September 30, 2008 we realized income from operations of \$9,636,121 compared to an income from operations of \$6,606,045 during the three months ended September 30, 2007. This increase in income from operations during the three months ended September 30, 2008 is the result of the 78% increase in revenue, which increase was partially offset by a 113% increase in total expenses.

Other Income. During the three months ended September 30, 2008 we realized total other income of \$193,905 compared to \$874,368 during the three months ended September 30, 2007. This decrease is largely attributable to a decrease in interest income and in foreign exchange gain.

Net Income. For all of the foregoing reasons, during the three months ended September 30, 2008 we realized net income of \$9,830,026 or \$0.21 per share compared to a net income of \$4,937,073 or \$0.11 per share for the three months ended September 30, 2007.

Results of Operations

Six months ended September 30, 2008, compared to the six months ended September 30, 2007.

Revenue and Production

The following table summarizes production volumes, average sales prices and operating revenue for our oil and natural gas operations for the six months ended September 30, 2008 and the six months ended September 30, 2007.

	For the six months ended September 30, 2008	For the six months ended September 30, 2007	Six months ended September 30, 2008 to the six months ended September 30, 2007	
			\$ Increase (Decrease)	% Increase (Decrease)
Production volumes:				
Natural gas (Mcf)	-	-	-	-
Natural gas liquids (Bbls)	-	-	-	-
Oil and condensate (Bbls)	639,367	415,126	224,241	54%
Barrels of Oil equivalent (BOE)	639,367	415,126	224,241	54%
Sales volumes:				
Natural gas (Mcf)	-	-	-	-
Natural gas liquids (Bbls)	-	-	-	-
Oil and condensate (Bbls)	637,278	412,696	224,582	54%
Barrels of Oil equivalent (BOE)	637,278	412,696	224,582	54%
Average Sales Price ⁽¹⁾				
Natural gas (\$ per Mcf)	-	-	-	-
Natural gas liquids (\$ per Bbl)	-	-	-	-
Oil and condensate (\$ per Bbl)	\$ 90.36	\$ 58.99	\$ 31.37	53%
Barrels of Oil equivalent (\$ per BOE)	\$ 90.36	\$ 58.99	\$ 31.37	53%
Operating Revenue:				
Natural gas	-	-	-	-
Natural gas liquids	-	-	-	-
Oil and condensate	\$ 57,585,384	\$ 24,345,355	\$ 33,240,029	137%
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 six months ended September 30, 2008, or the six months ended September 30, 2007.

Revenues. We generate revenue under our contract from the sale of oil recovered during test production. During the six months ended September 30, 2008 our oil production increased 54% compared to the six months ended September 30, 2007. This significant increase in production is primarily attributable to the fact that we had twenty-two wells in testing or test production during all or some portion of the six months ended September 30, 2008 compared to thirteen wells during all or some portion of the six month period ended September 30, 2007.

During the six months ended September 30, 2008 we realized revenue from oil sales of \$57,585,384 compared to \$24,345,355 during the six months ended September 30, 2007. The largest contributing factor to the 137% increase in revenue was a 54% increase in sales volume. Another factor contributing to the increase in revenues was a 53% increase in the price per barrel we received for oil sales during the six months ended September 30, 2008 compared to the six months ended September 30, 2007. During the six months ended September 30, 2008 and 2007 we exported 96% of our oil to the world markets and realized the world market price for those sales.

Costs and Operating Expenses

The following table presents details of our expenses for the six months ended September 30, 2008 and 2007:

	For the six months ended September 30, 2008	For the six months ended September 30, 2007
Expenses:		
Export duty	\$ 5,739,900	\$ -
Oil and gas operating ⁽¹⁾	4,615,705	2,230,370
General and administrative	10,585,520	6,965,955
Depletion ⁽²⁾	6,419,125	2,506,955
Accretion expenses	204,356	92,359
Amortization and depreciation	146,740	112,219
Consulting expenses	8,662,500	-
Total	\$ 36,373,846	\$ 11,907,858
Expenses (\$ per BOE):		
Oil and gas operating ⁽¹⁾	7.24	5.40
Depletion ⁽²⁾	10.07	6.07

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

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

Export Duty. On April 18, 2008 the government of the Republic of Kazakhstan introduced an export duty on several products (including crude oil). We became be subject to the duty in June 2008. The export duty for the six months ended September 30, 2008 amounted to \$5,739,900.

Oil and Gas Operating Expenses. During the six months ended September 30, 2008 we incurred \$4,615,705 in oil and gas operating expenses compared to \$2,230,370 during the six months ended September 30, 2007. This significant increase is primarily the result of increased production volumes and other factors, including the increased royalty, salary and production expenses.

During the six months ended September 30, 2008 royalty paid to the Government increased by \$1,082,320 or 211% compared to the six months ended September 30, 2007. 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 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 107% during the six months ended September 30, 2008 compared to the six months ended September 30, 2007, expense per BOE increased 34% during the six months ended September 30, 2008. Expense per BOE increased as a result of increased production expenses. During the six months ended September 30, 2007 we sold 412,696 barrels of oil, during the three months ended September 30, 2008 we sold 637,278 barrels of oil. As expense per BOE is a function of total expense divided by the number of barrels of oil sold, the 54% increase in sales volume less than offset the 205% increase in expenses resulting in a 34%, or \$1.84, increase in oil and gas operating expense per BOE.

During the six months ended September 30, 2008 payroll and related payments to production personnel increased \$205,703 or 86% compared to the six months ended September 30, 2007. As a result of increased production volume, we retained more production personnel during the three months ended September 30, 2008 than during the six months ended September 30, 2007.

Transportation expenses increased \$1,177,812 or 84% 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.

General and Administrative Expenses. General and administrative expenses during the six months ended September 30, 2008 were \$10,585,520 compared to \$6,965,955 during the six months ended September 30, 2007. This represents a 52% increase in general and administrative expenses. This increase in general and administrative expenses was the result of several factors such as increased payroll and related costs, rent expense, taxes and professional services.

We recognized non-cash compensation expense of \$2,647,059 during the six months ended September 30, 2008 resulting from restricted stock grants made to employees and outside consultants. By comparison, during the six months ended September 30, 2007 we recognized the non-cash compensation expense in the amount of \$1,153,914 for restricted stock grants issued to employees and outside consultants.

The increase in general and administrative expense during the six months ended September 30, 2008 compared to the six months ended September 30, 2007 was primarily the result of:

- a 47% increase in payroll and related costs as we hired additional administrative personnel to fulfill business needs, increased employee pay rates for existing employees;
- a 61% increase in rent expense from renting special equipment, apartments and additional vehicles;
- a 235% increase in taxes resulting from environmental payments; and
- a 33% increase in transportation expenses

Depletion. Depletion expense for the six months ended September 30, 2008 increased by \$3,912,170 or 156% compared to depletion expenses for the six months ended September 30, 2007. The major reason for this increase in depletion expense was the 54% increase in sales volume during the six months ended September 30, 2008 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 quarter.

Amortization and Depreciation. Depreciation and amortization expense for the six months ended September 30, 2008 increased 31% compared to the six months ended September 30, 2007. The increase resulted from purchases of fixed assets during the year.

Consulting Expense. On June 24, 2008, the Company was granted an extension of its existing exploration contract from July 2009 to January 2013. The compensation expenses for consulting services were recorded in the amount of \$11,727,500, which represents \$1,000,000 paid upon the execution of consulting agreement and non-cash share-based compensation in the amount of \$10,727,500 as the successful fee for extension of time period for exploration. The share-based compensation represents 1,750,000 (500,000 shares for each additional year of exploration status extension) valued at \$6.13 per share which was the closing market price of Company's shares on June 24, 2008.

On September 16, 2008 this consulting agreement was revised and parties agreed to decrease number of shares issued for services provided by 500,000 shares. The non-cash compensation expenses for consulting services were reversed in the amount of \$3,065,000 (500,000 shares valued at \$6.13 per share which was the closing market price of Company's shares on June 24, 2008) for the three months ended September 30, 2008.

Income from Operations. During the six months ended September 30, 2008 we realized income from operations of \$21,211,538 compared to an income from operations of \$12,437,497 during the six months ended September 30, 2007. This increase in income from operations during the six months ended September 30, 2008 is the result of the 137% increase in revenue, which increase was partially offset by a 205% increase in total expenses.

Other Income. During the six months ended September 30, 2008 we realized total other income of \$1,939,811 compared to \$452,604 during the six months ended September 30, 2007. This increase is largely attributable to \$1,650,293 we received from a shareholder of the Company as disgorgement of profits earned in violation of the short-swing profit rules of Section 16b of the Securities Exchange Act of 1934.

Net Income. For all of the foregoing reasons, during the six months ended September 30, 2008 we realized net income of \$23,151,349 or \$0.50 per share compared to a net income of \$8,819,330 or \$0.20 per share for the six months ended September 30, 2007.

Liquidity and Capital Resources

For the period from inception on May 6, 2003 through September 30, 2008, we have incurred capital expenditures of \$230,397,233 for exploration, development and acquisition activities. Funding for our activities has historically been provided by funds raised through the sale of our common stock and debt securities. From inception to September 30, 2008 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. The net proceeds from the Note issuance of approximately \$56.2 million have been used to continue our drilling program. For additional detail regarding the Notes, including adjustments to the initial conversion price and the registration right of the Noteholders and see *Note 9* to the *Notes to the Unaudited Consolidated Financial Statements, September 30, 2008*.

Recent problems in the credit markets, steep declines in worldwide oil prices and volatility and downward trends in the stock market evidence a weakening United States and global economy. These conditions have caused many junior exploration and production companies to seek additional capital, to merge with larger and stronger companies and in some cases, to fail.

We need capital to fund to meet the drilling requirements of our minimum work program. We will need to expend a minimum of \$74.1 million by January 2013 to satisfy the minimum capital expenditure requirements of our exploration license. At September 30, 2008, current liabilities exceeded current assets by \$8,481,736. Given world oil prices, the export duty on our oil sales outside the domestic market of Kazakhstan, current decline rates in our existing wells and lower than anticipated production from recently completed wells, this gap may widen in upcoming fiscal quarters. We expect we will need to seek additional financing to allow us to meet our capital expenditure and working capital needs in the longer-term. We are working to finalize the terms of a revolving credit facility. We have not at this time executed any definitive agreements. While this credit facility will provide us an additional source of capital, we do not expect it will be adequate to meet all our obligations and capital needs in the longer-term. We expect we will need to seek additional financing. Given the current world-wide credit crisis, there is no guarantee that we will be able to secure additional funding on acceptable terms, or at all.

Cash Flows

During the six months ended September 30, 2008 cash was primarily used to fund exploration expenditures. See below for additional discussion and analysis of cash flow.

	Six months ended September 30, 2008	Six months ended September 30, 2007
Net cash provided by operating activities	\$ 44,873,497	\$ 10,708,506
Net cash used in investing activities	\$ (50,202,387)	\$ (31,386,580)
Net cash provided by financing activities	\$ 50,001	\$ 56,210,763
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ (5,278,889)	\$ 35,532,689

Our principal source of liquidity during the six months ended September 30, 2008 was cash and cash equivalents. At March 31, 2008 cash and cash equivalents totaled approximately \$17.2 million. At September 30, 2008 cash and cash equivalents had decreased to approximately \$12 million. During the six months ended September 30, 2008 we spent approximately \$47.4 million to fund our drilling and development activities.

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

Contractual Obligations and Contingencies

The following table lists our significant commitments at September 30, 2008, excluding current liabilities as listed on our consolidated balance sheet:

	Payments Due By Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual obligations					
Capital Expenditure Commitment ⁽¹⁾	\$ 73,710,000	\$ 3,570,000	\$ 45,965,000	\$ 24,175,000	\$ -
Due to the Government of the Republic of Kazakhstan ⁽²⁾	11,744,880	50,000	300,000	11,394,880	-
Liquidation Fund	4,382,462	-	4,382,462	-	-
Consultant Fee ⁽³⁾	4,000,000	4,000,000	-	-	-
Total	\$ 93,837,342	\$ 7,620,000	\$ 50,647,462	\$ 35,569,880	\$ -

(1) Under the terms of our subsurface exploration contract we are required to spend a total of \$93.2 million in exploration activities on our properties, including a minimum of \$3.6 million by July 2009, \$10.4 million by January 2010, \$21.3 million by January 2011, \$27.2 million by January 2012 and \$14.9 million by January 2013. As of September 30, 2008, we have spent a total of \$230.4 million in exploration activities.

(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 Southeast Block is \$5,350,680. We anticipate we will also be obligated to assume a repayment obligation in connection with the Northwest Block, although we do not yet know the amount of such obligation. 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 Southeast Block to the ROK in satisfaction of their associated obligations.

- (3) In November 2007 we entered into a consulting agreement with Caspian Energy Consulting Ltd. (“Consultant”). The consulting agreement provides that in the event the Consultant is successful in execution and delivery to us of a new exploration contract for a new contract territory, the Company will pay the amount of \$4,000,000. The consulting agreement shall remain in force until terminated by either party. As of September 30, 2008 the Consultant has not obtained a new exploration contract for a new contract territory.

Off-Balance Sheet Financing Arrangements

As of September 30, 2008, 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. Crude oil sales in the international market during our second fiscal quarter 2009 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 September 30, 2008.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2008 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 18 "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 2008 Annual Report on Form 10-K, as amended, including under the heading "Item 1A. Risk Factors" of Part I, 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 2. Unregistered Sales of Equity Securities

In November 2007 we entered into a consulting agreement with a consultant to assist us in extending the term of our exploration contract and to extend our exploration territory. On June 24, 2008, we were granted an extension of the term of our existing exploration contract from July 2009 to January 2013. As a result, we became obligated to issue 1,750,000 shares (500,000 shares for each additional year of exploration status extension) to the consultant. The shares were valued at \$6.13 per share which was the closing market price of our shares on June 24, 2008.

On September 16, 2008 the consulting agreement was revised and the consultant agreed to decrease the number of shares issuable for the services rendered in obtaining the extension by 500,000 shares. We are in the process of issuing these shares. When issued, these shares will be issued without registration under the Securities Act of 1933 in reliance upon Regulation S of the rules and regulations promulgated under the Securities Act of 1933, as amended. The consultant is a non-U.S. person.

In July 2008, Credifinance exercised warrants to purchase 14,286 shares of our restricted common stock at a price of \$3.50 per share. The shares were issued without registration under the Securities Act of 1933 in reliance upon Section 4(2) of the Securities Act of 1933, as amended.

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: November 10, 2008

/s/ Gamal Kulumbetov

Gamal Kulumbetov
Chief Executive Officer

Date: November 10, 2008

/s/ Leonard Stillman

Leonard Stillman
Interim Chief Financial Officer

EXHIBIT 12.1

BMB MUNAI, INC.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Three months ended September 30,	
	2008	2007
	<u> </u>	<u> </u>
Earnings:		
Income before income taxes	\$ 9,830,026	\$ 7,480,413
Add: Fixed charges	943,337	-
Add: Amortisation of capitalized interest	14,317	-
Less: Interest capitalized	943,337	-
Total earnings	<u>9,844,343</u>	<u>7,480,413</u>
Fixed charges:		
Interest expensed and capitalized	750,000	-
Amortized premiums, discounts, & bond costs	382,799	-
Total fixed charges	<u>1,132,799</u>	<u>-</u>
Ration of earnings to fixed charges	<u>8.69</u>	<u>-</u>

BMB MUNAI, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

Six months ended September 30,
2008 **2007**

Earnings:

Income before income taxes	\$ 23,151,349	\$ 12,890,101
Add: Fixed charges	2,268,641	-
Add: Amortisation of capitalized interest	59,646	-
Less: Interest capitalized	2,268,641	-
Total earnings	<u>23,210,995</u>	<u>12,890,101</u>

Fixed charges:

Interest expensed and capitalized	1,500,000	-
Amortized premiums, discounts, & bond costs	768,641	-
Total fixed charges	<u>2,268,641</u>	<u>-</u>
Ration of earnings to fixed charges	<u>10.23</u>	<u>-</u>

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: November 10, 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, Leonard Stillman, 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: November 10, 2008

/s/ Leonard Stillman

Leonard Stillman
Interim 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 September 30, 2008, 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: November 10, 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 September 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), I, Leonard Stillman, Interim 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: November 10, 2008

/s/ Leonard Stillman

Leonard Stillman
Interim Chief Financial Officer