

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 June 30, 2009

**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, 4<sup>th</sup> 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 August 10, 2009, the registrant had 50,365,015 shares of common stock, par value \$0.001, issued and outstanding.

---

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

PART I — FINANCIAL INFORMATION	<u>Page</u>
Item 1. Unaudited Consolidated Financial Statements	
Consolidated Balance Sheets as of June 30, 2009 and March 31, 2009	3
Consolidated Statements of Operations for the Three Months Ended June 30, 2009 and 2008	4
Consolidated Statements of Cash Flows for the Three Months Ended June 30, 2009 and 2008	5
Notes to Consolidated Financial Statements	7
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	37
Item 3. Qualitative and Quantitative Disclosures About Market Risk	46
Item 4. Controls and Procedures	48
PART II — OTHER INFORMATION	
Item 1. Legal Proceedings	48
Item 1A. Risk Factors	48
Item 6. Exhibits	49
Signatures	49

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

	Notes	June 30, 2009 (unaudited)	March 31, 2009
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	\$ 6,429,595	\$ 6,755,545
Trade accounts receivable		6,053,046	3,081,573
Prepaid expenses and other assets, net	4	997,892	3,054,078
Total current assets		<u>13,480,533</u>	<u>12,891,196</u>
<b>LONG TERM ASSETS</b>			
Oil and gas properties, full cost method, net	5	242,105,789	238,728,413
Gas utilization facility	6	13,569,738	13,470,631
Inventories for oil and gas projects	7	13,761,761	14,002,146
Prepayments for materials used in oil and gas projects		578,063	122,040
Other fixed assets, net		3,461,125	3,629,108
Long term VAT recoverable	8	3,209,769	2,423,940
Convertible notes issue cost		2,300,908	2,490,370
Restricted cash		592,089	588,217
Total long term assets		<u>279,579,242</u>	<u>275,454,865</u>
<b>TOTAL ASSETS</b>		<b><u>\$ 293,059,775</u></b>	<b><u>\$ 288,346,061</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	17	15,857,581	21,771,137
Accrued coupon payment		1,391,667	641,667
Accrued liabilities and other payables		2,852,392	1,697,097
Total current liabilities		<u>20,101,640</u>	<u>24,109,901</u>
<b>LONG TERM LIABILITIES</b>			
Convertible notes issued, net	9	61,540,106	61,331,521
Liquidation fund	10	4,371,841	4,263,994
Deferred taxes	15	6,516,444	6,516,444
Total long term liabilities		<u>72,428,391</u>	<u>72,111,959</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	18	-	-
<b>SHAREHOLDERS' EQUITY</b>			
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, 50,365,015 and 47,378,420 shares outstanding, respectively	11	50,365	47,378
Additional paid in capital	11, 17	159,885,412	151,513,638
Retained earnings		40,593,967	40,563,185
Total shareholders' equity		<u>200,529,744</u>	<u>192,124,201</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>\$ 293,059,775</u></b>	<b><u>\$ 288,346,061</u></b>

See notes to the unaudited consolidated financial statements.



**BMB MUNAI, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

		<b>Three months ended June 30,</b>	
	<b>Notes</b>	<b>2009</b>	<b>2008</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
REVENUES	12	\$ 11,766,806	\$ 34,827,224
<b>COSTS AND OPERATING EXPENSES</b>			
Export duty	13	-	1,352,917
Oil and gas operating		3,092,437	2,340,843
General and administrative		4,851,766	4,337,641
Consulting expenses		-	11,727,500
Depletion		2,243,304	3,333,289
Interest expense		1,148,047	-
Amortization and depreciation		130,973	63,659
Accretion expense		107,847	95,958
Total costs and operating expenses		<u>11,574,374</u>	<u>23,251,807</u>
INCOME FROM OPERATIONS		192,432	11,575,417
<b>OTHER INCOME / (EXPENSE)</b>			
Foreign exchange (loss)/gain, net		(82,321)	30,036
Disgorgement funds received	14	-	1,650,293
Interest income		33,160	130,292
Other expense, net		<u>(112,489)</u>	<u>(64,715)</u>
Total other (expense)/income		<u>(161,650)</u>	<u>1,745,906</u>
INCOME BEFORE INCOME TAXES		30,782	13,321,323
INCOME TAX EXPENSE	15	-	-
NET INCOME		<u>\$ 30,782</u>	<u>\$ 13,321,323</u>
BASIC NET INCOME PER COMMON SHARE	16	\$ 0.00	\$ 0.30
DILUTED NET INCOME PER COMMON SHARE	16	\$ 0.00	\$ 0.30

See notes to the unaudited consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Notes	Three months ended June 30,	
		2009 (unaudited)	2008 (unaudited)
		<u>                    </u>	<u>                    </u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income		\$ 30,782	\$ 13,321,323
Adjustments to reconcile net income to net cash provided by operating activities:			
Depletion	5	2,243,304	3,333,289
Amortization and depreciation		130,973	63,659
Interest expense		1,148,047	-
Accretion expense	10	107,847	95,958
Share based compensation expense	11	2,401,576	567,889
Stock issued for services		-	10,727,500
Loss on disposal of fixed assets		31,832	-
Changes in operating assets and liabilities:			
(Increase)/decrease in trade accounts receivable		(2,971,473)	1,460,238
Decrease /(increase) in prepaid expenses and other assets		2,056,186	(2,566,531)
Increase in VAT recoverable		(785,829)	(1,653,110)
Increase in current liabilities		1,214,924	7,978,011
Net cash provided by operating activities		<u>5,608,169</u>	<u>33,328,226</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of oil and gas properties	5	(5,813,067)	(17,210,824)
Purchase of other fixed assets		(117,180)	(3,407,622)
Increase in inventories for oil and gas projects		-	(6,484,359)
Increase in restricted cash		(3,872)	-
Net cash used in investing activities		<u>(5,934,119)</u>	<u>(27,102,805)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of convertible debt		-	-
Proceeds from exercise of common stock options and warrants		-	-
Net cash provided by financing activities		<u>-</u>	<u>-</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(325,950)</b>	<b>6,225,421</b>
<b>CASH AND CASH EQUIVALENTS at beginning of period</b>		<b><u>6,755,545</u></b>	<b><u>17,238,837</u></b>
<b>CASH AND CASH EQUIVALENTS at end of period</b>		<b><u>\$ 6,429,595</u></b>	<b><u>\$ 23,464,258</u></b>

See notes to the unaudited consolidated financial statements.

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

	Notes	Three months ended June 30,	
		2009 (unaudited)	2008 (unaudited)
<b>Non-Cash Investing and Financing Activities</b>			
Asset retirement obligation incurred in property development, net of estimate revision	9	\$ -	\$ 65,408
Coupon payment on convertible notes, capitalized as part of oil and gas properties	9	-	750,000
Accretion of discount on convertible notes, capitalized as part of oil and gas properties	9	-	196,380
Amortization of convertible notes issue costs, capitalized as part of oil and gas properties		-	189,462
Transfer of inventory and prepayments for materials used in oil and gas projects to oil and gas properties		240,385	11,438,081
Transfers from oil and gas properties, construction in progress and other fixed assets to gas utilization facility		99,107	-
Issuance of common stock for the settlement of liabilities	17	5,973,185	-

See notes to the unaudited consolidated financial statements.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 1 - DESCRIPTION OF BUSINESS**

The corporation now known as BMB Munai, Inc. (“BMB Munai” or the “Company”), a Nevada corporation, was originally incorporated in Utah in July 1981. On February 7, 1994, the corporation changed its name to InterUnion Financial Corporation (“InterUnion”) and its domicile to Delaware. BMB Holding, Inc. (“BMB Holding”) was incorporated on May 6, 2003 for the purpose of acquiring and developing oil and gas fields in the Republic of Kazakhstan. On November 26, 2003, InterUnion executed an Agreement and Plan of Merger (the “Agreement”) with BMB Holding. As a result of the merger, the shareholders of BMB Holding obtained control of the corporation. BMB Holding was treated as the acquiror for accounting purposes. A new board of directors was elected that was comprised primarily of the former directors of BMB Holding and the name of the corporation was changed to BMB Munai, Inc. 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-four wells. 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**

***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.



**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

*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.

*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.

*Licences 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, 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.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009**

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 three months ended June 30, 2009 and 2008, sales to one customer represented 100% and 93% of total sales, respectively. At June 30, 2009 and 2008, this customer made up 100% of accounts receivable. While the loss of this foregoing customer could have a material adverse effect on the Company in the short-term, the loss of this customer should not materially adversely affect the Company in the long-term because of the 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.

***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

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009**

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 stock 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 three months ended June 30, 2009 and 2008 was \$2,401,576 and \$567,889, 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. Domestic markets in the Republic of Kazakhstan historically and currently do not permit world market price to be obtained. 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.

***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.

In December 2008 the Government of the Republic of Kazakhstan issued a resolution that cancelled the export duty effective January 26, 2009 for companies operating under the new tax code.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

***Mineral Extraction Tax***

The mineral extraction tax replaced the royalty expense the Company had paid. The rate of this tax depends on annual production output. The new code currently provides for a 5% mineral extraction tax rate (6% in 2010 and 7% starting from 2011) on production sold to the export market, and a 2.5% tax rate (3% in 2010 and 3.5% starting from 2011) on production sold to the domestic market. The mineral extraction tax expense is reported as part of oil and gas operating expense.

***Rent Export Tax***

This tax is calculated based on the export sales price and ranges from as low as 0%, if the price is less than \$40 per barrel, to as high as 32%, if the price per barrel exceeds \$190. Rent export tax is reported as part of oil and gas operating expense.

***Income taxes***

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes. Deferred taxes are provided on differences between the tax bases of assets and liabilities and their reported amounts in the financial statements, and tax carryforwards. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

***Fair Values of Financial Instruments***

The carrying values reported for cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their respective fair values in the accompanying balance sheet due to the short-term maturity of these financial instruments. In addition, the Company has long-term debt with financial institutions. The carrying amount of the long-term debt approximates fair value based on current rates for instruments with similar characteristics.

***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.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

*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.

*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 June 30, 2009 and no provision for obsolete inventory has been provided.

*Oil and gas properties*

The Company uses the full cost method of accounting for oil and gas properties. Under this method, all costs associated with acquisition, exploration, and development of oil and gas properties are capitalized. Costs capitalized include acquisition costs, geological and geophysical expenditures, and costs of drilling and equipping productive and non-productive wells. Drilling costs include directly related overhead costs. These costs do not include any costs related to production, general corporate overhead or similar activities. Under this method of accounting, the cost of both successful and unsuccessful exploration and

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

development activities are capitalized as property and equipment. Proceeds from the sale or disposition of oil and gas properties are accounted for as a reduction to capitalized costs unless a significant portion of the Company's proved reserve are sold (greater than 25 percent), in which case a gain or loss is recognized.

Capitalized costs less accumulated depletion and related deferred income taxes shall not exceed an amount (the full cost ceiling) equal to the sum of:

- a) the present value of estimated future net revenues computed by applying current prices of oil and gas reserves to estimated future production of proved oil and gas reserves, less estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves computed using a discount factor of ten percent and assuming continuation of existing economic conditions;
- b) plus the cost of properties not being amortized;
- c) plus the lower of cost or estimated fair value of unproven properties included in the costs being amortized;
- d) less income tax effects related to differences between the book and tax basis of the properties.

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.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves and estimated future costs to plug and abandon wells and costs of site restoration, less the estimated salvage value of equipment associated with the oil and gas properties, are amortized on the unit-of-production method using estimates of proved reserves as determined by independent engineers.

***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

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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.

***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.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

*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.

*New accounting policies*

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement." This statement 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 does not require any new fair value measurements but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. We adopted SFAS No. 157 effective April 1, 2008 and the adoption did not have a significant effect on our consolidated results of operations, financial position or cash flows. In February 2008, the FASB issued FSP SFAS No. 157-2 which delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This deferral of SFAS No. 157 primarily applies to our asset retirement obligation (ARO), which uses fair value measures at the date incurred to determine our liability. We are currently evaluating the impact of the pending adoption in 2009 of SFAS No. 157 non-recurring fair value measures.



**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115,” effective on January 1, 2008, and permits companies to choose, at specified dates, to measure certain eligible financial instruments at fair value. The provisions of SFAS No. 159 apply only to entities that elect to use the fair value option and to all entities with available-for-sale and trading securities. At the effective date, companies may elect the fair value option for eligible items that exist at that date, and the effect of the first remeasurement to fair value must be reported as a cumulative-effect adjustment to the opening balance of retained earnings. The adoption of SFAS No. 159 has not had a material impact on the Company’s financial position or results of operations.

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109” (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions. The Company has analyzed its filing positions in all jurisdictions where it is required to file income tax returns for the open tax years in such jurisdictions. The Company has identified its federal income tax return and its state income tax returns in Utah and Republic of Kazakhstan in which it operates as “major” tax jurisdictions. The Company has no significant reserves for uncertain tax positions and no adjustments to such reserves were required upon adoption of FIN 48. No interest or penalties have been levied against the Company and none are anticipated, therefore interest or penalty has been included in our provision for income taxes in the consolidated statements of operations.

In March 2008, the FASB issued Statement No. 161, “*Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement 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 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 April 2008, FASB issued FASB Staff Position SFAS No. 142-3, *Determination of the Useful Life of Intangible Assets* (“FSP SFAS No. 142-3”). FSP SFAS No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

recognizable intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). The intent of FSP SFAS No. 142-3 is to improve the consistency between the useful life of a recognizable intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), "Business Combinations" and other U.S. generally accepted accounting principles. FSP SFAS No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company does not anticipate that the adoption of FSP SFAS No. 142-3 will have an impact on its financial position or results of operations.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, "*Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*", or FSP No. APB 14-1. FSP No. APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14 "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants". Additionally, the FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP No. APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Management is currently assessing the impact this standard will have on the Company's consolidated financial position or results of operations.

In June 2008, the FASB issued Staff Position No. EITF 03-6-1, "*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 applies to the calculation of earnings per share ("EPS") described in paragraphs 60 and 61 of FASB Statement No. 128, "Earnings per Share" for share-based payment awards with rights to dividends or dividend equivalents. It states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. All prior-period EPS data presented shall be adjusted retrospectively to conform to the provisions of this FSP. The Company will apply the requirements of FSP EITF 03-6-1 upon its adoption beginning with the interim period ending June 30, 2009. Management does not expect the adoption of FSP EITF 03-6-1 to have a material impact on its financial position and results of operations, although prior-period EPS data will be affected.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

*Recent accounting pronouncements*

In December 2007, the FASB issued a revision of Statement No. 141 (R), "*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 May 2008, the FASB issued Statement No. 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 December 2008, the SEC issued the final rule, "*Modernization of Oil and Gas Reporting*," which adopts revisions to the SEC's oil and natural gas reporting disclosure requirements and is effective for annual reports on Forms 10-K for years ending on or after December 31, 2009. Early adoption of the new rules is prohibited. The new rules are intended to provide investors with a more meaningful and comprehensive understanding of oil and natural gas reserves to help investors evaluate their investments in oil and natural gas companies. The new rules are also designed to modernize the oil and natural gas disclosure requirements to align them with current practices and changes in technology. The new rules include changes to the pricing used to estimate reserves, the ability to include nontraditional resources in reserves, the use of new technology for determining reserves and permitting disclosure of probable and possible reserves. The Company is currently evaluating the potential impact of these rules. The SEC is discussing

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

the rules with the FASB staff to align FASB accounting standards with the new SEC rules. These discussions may delay the required compliance date. Absent any change in the effective date, the Company will begin complying with the disclosure requirements in our annual report on Form 10-K for the fiscal year ending March 31, 2010.

**NOTE 3 - CASH AND CASH EQUIVALENTS**

As of June 30, 2009 and March 31, 2009 cash and cash equivalents included:

	<u>June 30, 2009</u>	<u>March 31, 2009</u>
US Dollars	\$ 6,316,928	\$ 6,030,173
Foreign currency	112,667	725,372
	<u>\$ 6,429,595</u>	<u>\$ 6,755,545</u>

As of June 30, 2009 and March 31, 2009 cash and cash equivalents included \$1,721,669 and \$2,371,558 placed in money market funds having 30 day simple yields of 0.01% and 0.13%, respectively.

**NOTE 4 - PREPAID EXPENSES AND OTHER ASSETS**

Prepaid expenses and other assets as of June 30, 2009 and March 31, 2009, were as follows:

	<u>June 30, 2009</u>	<u>March 31, 2009</u>
Advances for services	\$ 416,250	\$ 2,740,915
Other	581,642	313,163
Reserves against uncollectible advances and prepayments	-	-
	<u>\$ 997,892</u>	<u>\$ 3,054,078</u>

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 5 - OIL AND GAS PROPERTIES**

Oil and gas properties using the full cost method as of June 30, 2009 and March 31, 2009, were as follows:

	<u>June 30, 2009</u>	<u>March 31, 2009</u>
Cost of drilling wells	\$ 96,224,480	\$ 96,203,705
Professional services received in exploration and development activities	59,795,958	55,424,910
Material and fuel used in exploration and development activities	51,513,049	51,273,747
Subsoil use rights	20,788,119	20,788,119
Deferred tax	7,219,219	7,219,219
Geological and geophysical	7,877,780	7,870,516
Capitalized interest, accreted discount and amortised bond issue costs on convertible notes issued	6,633,181	6,633,181
Infrastructure development costs	1,349,835	1,245,298
Other capitalized costs	16,173,930	15,296,176
Accumulated depletion	(25,469,762)	(23,226,458)
	<u><b>\$ 242,105,789</b></u>	<u><b>\$ 238,728,413</b></u>

The purchase of Emir Oil LLP was 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 – GAS UTILIZATION FACILITY**

The Company has entered into an Agreement on Joint Business (the “Agreement”) with Ecotechnic Chemicals AG incorporated in Switzerland, for construction of a facility to utilize the associated gas from the Company’s fields (the “Facility”).

The Facility was completed on January 1, 2009. All costs associated with the completion of the Facility, which includes amounts previously classified as construction in progress, have been reported as Gas Utilization Facility on the balance sheet.

During the three months ended June 30, 2009, the Company made payment to Ecotechnic Chemicals AG in the amount of \$75,000 and contributed property totalling \$24,107 to the completion of the Facility.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

No depreciation expense was recognized for Gas Utilization Facility during the quarter ended June 30, 2009 because during this quarter it operated in the test mode.

**NOTE 7 – INVENTORIES FOR OIL AND GAS PROJECTS**

As of June 30, 2009 and March 31, 2009 inventories included:

	<u>June 30, 2009</u>	<u>March 31, 2009</u>
Construction material	\$ 12,744,729	\$ 12,962,397
Spare parts	91,743	84,524
Crude oil produced	4,952	5,029
Other	920,337	950,196
	<u>\$ 13,761,761</u>	<u>\$ 14,002,146</u>

**NOTE 8 - LONG TERM VAT RECOVERABLE**

As of June 30, 2009 and March 31, 2009 the Company had long term VAT recoverable in the amount of \$3,209,769 and \$2,423,940, 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.

**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.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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.

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

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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.

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.



**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

As of June 30, 2009 and March 31, 2009 the convertible notes payable amount is presented as follows:

	<u>June 30, 2009</u>	<u>March 31, 2009</u>
Convertible notes redemption value	\$ 64,323,785	\$ 64,323,785
Unamortized discount	<u>(2,783,679)</u>	<u>(2,992,264)</u>
	<u><b>\$ 61,540,106</b></u>	<u><b>\$ 61,331,521</b></u>

As of June 30, 2009 and March 31, 2009 the Company has accrued interest of \$1,391,667 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 \$1,540,106 and \$1,331,521 as of June 30, 2009 and March 31, 2009, respectively. The carrying value of convertible notes will be accreted to the redemption value of \$64,323,785.

**NOTE 10 - LIQUIDATION FUND**

A reconciliation on the Liquidation Fund (Asset Retirement Obligation) at June 30, 2009 and March 31, 2009 is as follows:

	<u>Total</u>
<b>At March 31, 2009</b>	<b>\$ 4,263,994</b>
Accrual of liability	-
Accretion expenses	<u>107,847</u>
<b>At June 30, 2009</b>	<u><b>\$ 4,371,841</b></u>

Management believes that the liquidation fund should be accrued for future abandonment costs of 24 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 June 30, 2009, 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 \$6,204,545. After application of a 10% discount rate, the present value of the Company's liability at June 30, 2009 and March 31, 2009 was \$4,371,841 and \$4,263,994, respectively.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 11 - SHARE AND ADDITIONAL PAID IN CAPITAL

**Share-Based Compensation**

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 the same vesting requirements. Previous vesting conditions stated that 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 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. At the time the grants were made, it was anticipated that the grants would vest no later than July 9, 2009, the date the exploration stage of the Company's exploration contract was scheduled to terminate. At the recommendation of the Compensation Committee, on September 11, 2008, the board of directors of the Company approved a change to the vesting conditions of the stock grants. The grants vested as of July 9, 2009.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009**

Non-cash compensation expense in the amount of \$567,889 was recognized in the Consolidated Statement of Operations and Consolidated Balance Sheet for the three months ended June 30, 2009.

As of June 30, 2009, there was no unrecognized non-cash compensation expense related to non-vested share-based compensation arrangements granted under the Plan.

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 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 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

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

Board of Directors. 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 \$1,833,687 was recognized in the Consolidated Statement of Operations and Consolidated Balance Sheet for the three months ended June 30, 2009.

As of June 30, 2009, there was \$342,557 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 approximately one month.

**Stock Options**

On June 20, 2006 the Company granted stock options to directors of the Company under the Plan. The total number of options was 200,000. The options are exercisable at a price of \$7.00 per share. All of the options vested immediately upon grant. Compensation expense for options granted is determined based on their fair value at the time of grant, the cost of which in the amount of \$545,346 was recognized in the Consolidated Statements of Operations and Consolidated Balance Sheet for the year ended March 31, 2007. These granted stock options expired unexercised on June 20, 2009.

Stock options outstanding and exercisable as of June 30, 2009, were as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
<b>As of March 31, 2009</b>	<b><u>1,170,583</u></b>	<b><u>\$ 5.33</u></b>
Granted	-	-
Exercised	-	-
Expired	(200,000)	\$ 7.00
<b>As of June 30, 2009</b>	<b><u>970,583</u></b>	<b><u>\$ 4.98</u></b>

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

Additional information regarding outstanding options as of June 30, 2009, was as follows:

<b>Options Outstanding</b>				<b>Options Exercisable</b>	
<b>Range of Exercise Price</b>	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Contractual Life (years)</b>	<b>Options</b>	<b>Weighted Average Exercise Price</b>
\$ 4.00 – \$ 7.40	970,583	\$ 4.98	5.00	970,583	\$ 4.98

**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.

	<b>Three months ended</b>	
	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Export sales	\$ 11,766,806	\$ 34,321,767
Domestic sales	-	505,457
	<u>\$ 11,766,806</u>	<u>\$ 34,827,224</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 formula for determining the amount of the crude oil export duty was based on a sliding scale that is tied to several factors, including the world market price for oil.

As discussed in Note 2, in December 2008 the government of the Republic of Kazakhstan issued a resolution that cancelled the export duty effective January 26, 2009 for companies operating under the new tax code.

On January 1, 2009, the Company became subject to the new tax code. As a result, the export duty for the three month ended June 30, 2009 was \$0.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 14 – 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 nine 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.

**NOTE 15 – 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. As long as the Company's capital expenditures exceed generated revenues, the Company will not be subject to Kazakhstan income tax.

As discussed in Note 2, Licenses and contracts, the Company was granted an Exploration contract extension. According to the terms of the Exploration contract, the Company will continue to operate in the exploration phase until January 2013.

Undistributed earnings of the Company's foreign subsidiaries since acquisition 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.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

Effective January 1, 2009, the Republic of Kazakhstan adopted a new tax code, which decreased the corporate income rate for legal entities to 20%.

No provision for income taxes has been recorded by the Company for the three months ended June 30, 2009.

**NOTE 16 - EARNINGS PER SHARE INFORMATION**

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

	<b>Three months ended</b>	
	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Net income	\$ 30,782	\$ 13,321,323
Basic weighted-average common shares outstanding	45,229,699	43,949,519
Effect of dilutive securities		
Warrants	-	20,988
Stock options	-	211,570
Unvested share grants	2,280,000	950,000
Dilutive weighted average common shares outstanding	47,509,699	45,132,077
Basic income per common share	<u>\$ 0.00</u>	<u>\$ 0.30</u>
Diluted income per common share	<u>\$ 0.00</u>	<u>\$ 0.30</u>

The diluted weighted average common shares outstanding for the three months ended June 30, 2009 and 2008, respectively, does not include the effect of the potential conversion of the Notes because the average market share price for the three months ended June 30, 2009 and 2008, respectively, was lower than potential conversion price of the convertible notes for this period.

The diluted weighted average common shares outstanding for the three months ended June 30, 2009 does not include the effect of potential conversion of certain warrants and stock options as their effects are anti-dilutive.

The diluted weighted average common shares outstanding for the three months ended June 30, 2009 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.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 17 - RELATED PARTY TRANSACTIONS**

The Company leases ground fuel tanks and other oil fuel storage facilities and warehouses from Term Oil LLC. The lease expenses for the three months ended June 30, 2009 and 2008, totaled to \$23,935 and \$60,882, respectively. Also the Company had advances paid to Term Oil LLC in the amount of \$143,509 and \$15,006 as of June 30, 2009 and March 31, 2009, respectively. A Company shareholder is an owner of Term Oil LLC.

On June 26, 2009 the Company entered into a Debt Purchase Agreement (the "Agreement") with Simage Limited, a British Virgin Islands international business corporation ("Simage"). Simage is a company owned by Toleush Tolmakov, a BMB shareholder and the General Director of Emir Oil, LLP, a wholly-owned subsidiary of the Company ("Emir").

Prior to the date of the Agreement, Simage had acquired by assignment, certain accounts receivable owed by Emir to third-party creditors of Emir in the amount of \$5,973,190 (the "Obligations"). Pursuant to the terms of the Agreement, Simage assigned to the Company all rights, title and interests in and to the Obligations in exchange for the issuance of 2,986,595 shares of common stock of the Company. The market value of the shares of common stock issued to Simage, at the agreement date, was \$3,076,193. The market value was based on \$1.03 per share, which was the closing market price of the Company's shares on June 26, 2009.

As a result of this Agreement, the Company has effectively been released of accounts payable obligations amounting to \$5,973,190. The Company has treated this Agreement as a related party transaction, due to the fact that Simage is owned by a Company shareholder. Therefore, the difference between the settled amount of accounts payable and the value of the common stock issued, which amounts to \$2,896,997, has been treated as a capital contribution by the shareholder and recognized as an addition to additional-paid-in-capital rather than a gain on settlement of debt.

**NOTE 18 - COMMITMENTS AND CONTINGENCIES**

*Consulting Agreement*

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



**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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:

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 June 30, 2009 the Company had spent a total of \$264.7 million in exploration activity.

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 \$8.7 million by January 9, 2010. The Company must spend an additional \$21.5 million between January 10, 2010 and January 9, 2011, \$27.3 million between January 10, 2011 and January 9, 2012 and \$14.9 million between January 10, 2012 and January 9, 2013.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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:

- 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

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009**

Toleush Tolmakov as a defendant in the action nor have the plaintiffs ever brought claims against Mr. Tolmakov to establish the existence or breach of any legally binding agreement between the plaintiffs and Mr. Tolmakov. The plaintiffs seek damages in an amount to be determined at trial, punitive damages, specific performance and such other relief as the Court finds just and reasonable.

The Company 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.

During the 2009 fiscal year, the Company changed its legal counsel to represent all defendants in the lawsuit from Bracewell & Giuliani LLP in New York, New York to Manning, Curtis, Bradshaw & Bednar LLC in Salt Lake City, Utah.

On December 12, 2008, plaintiffs sought leave to file a Third Amended Complaint to add claims for (a) breach of fiduciary duty against defendants Cherdabayev, Kunayev, Baiseitov, Agaian, Benarroch and Credifinance based on these defendants' alleged role as promoters of Sokol, (b) fraud against all defendants; and (c) promissory estoppel against defendants Cherdabayev, Kunayev and Baiseitov. Defendants opposed the Motion for Leave to Amend. That motion has been fully briefed but it has not yet been decided by the court. Fact discovery on the existing claims has been completed and the parties are now conducting expert discovery and reports. Plaintiffs have submitted an expert report on damages that claims damages of between \$6.7 million and \$10.9 million, plus interest. The Company disputes the Plaintiffs' damage claim, in addition to disputing liability. During and subsequent to quarter end, the damages experts for the defendants and the plaintiffs were deposed and expert discovery on the existing claims is now complete.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009**

At the present time, no trial date has been established. The Court has vacated all further deadlines in this case pending a decision on the plaintiffs' Motion for Leave to Amend its Complaint by the Magistrate Judge. The Company does not anticipate any further activity in the case until the Magistrate Judge determines whether to allow Plaintiffs to amend the Complaint.

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

*Economic Environment*

In recent years, Kazakhstan has undergone substantial political and economic change. As an emerging market, Kazakhstan does not possess a well-developed business infrastructure, which generally exists in a more mature free market economy. As a result, operations carried out in Kazakhstan can involve significant risks, which are not typically associated with those in developed markets. Instability in the market reform process could subject the Company to unpredictable changes in the basic business infrastructure in which it currently operates. Uncertainties regarding the political, legal, tax or regulatory environment, including the potential for adverse changes in any of these factors could affect the Company's ability to operate commercially. Management is unable to estimate what changes may occur or the resulting effect of such changes on the Company's financial condition or future results of operations.

Legislation and regulations regarding taxation, foreign currency translation, and licensing of foreign currency loans in the Republic of Kazakhstan continue to evolve as the central government manages the transformation from a command to a market-oriented economy. The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual.

**NOTE 19 - FINANCIAL INSTRUMENTS**

As of June 30, 2009 and March 31, 2009 cash and cash equivalents included deposits in Kazakhstan banks in the amount \$3,018,736 and \$2,606,004, respectively, and deposits in U.S. banks in the amount of \$3,410,859 and \$4,149,541, 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 June 30, 2009 and March 31, 2009. The Company's

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009**

deposits in U.S. banks are also in non-FDIC insured accounts which means they too are not insured to the \$250,000 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 June 30, 2009 and March 31, 2009 the Company made advance payments to Kazakhstan companies and government bodies in the amount \$4,673,717 and \$5,432,972, respectively. As of June 30, 2009 and March 31, 2009 restricted cash reflected in the long-term assets consisted of \$592,089 and \$588,217, respectively, deposited in a Kazakhstan bank and restricted to meet possible environmental obligations according to the regulations of Kazakhstan. Furthermore, the primary asset of the Company is Emir Oil LLP; an entity formed under the laws of the Republic of Kazakhstan.

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

The following discussion is intended to assist you in understanding our results of operations and our present financial condition. Our Consolidated Financial Statements and the accompanying notes included in this Form 10-Q contain additional information that should be referred to when reviewing this material and this document should be read in conjunction with the Form 10-K of the Company for the year ended March 31, 2009.

### 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 or to repay debts as they come due;
- 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, Inc. is organized under the laws of the State of Nevada. Our business activities focus on oil and natural gas exploration and production in the Republic of Kazakhstan (sometimes also referred to herein as the “ROK” or “Kazakhstan”). We hold an exploration contract that allows us to conduct exploratory drilling and oil production in the Mangistau Province in the southwestern region of Kazakhstan. Since the date of execution of the original exploration contract, we have successfully negotiated several amendments to the contract that have extended the term of our exploration contract to January 2013 and extended the territory of the contract area to approximately 850 square kilometers, which is comprised of the “ADE Block”, the “Southeast Block” and the “Northwest Block”.

## **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, the second stage, which is a commercial production contract with the government.

### *Minimum Work Program Requirements*

In order to be assured that adequate exploration activities are undertaken during exploration stage, the Ministry of Energy and Mineral Resources of the ROK (“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 annual work program requirements could preclude the contractor from receiving a longer-term production contract, could result in penalties and fines or even in the loss of the contractor’s license.

The contract we hold follows the above format. Historically, our annual work program year ran from July 10 of each year to July 9 of the next year. In connection with a recent amendment to our contract, our work program year end was changed to January 9 of each year beginning in 2010. From the beginning of the

exploration stage of our contract through July 9, 2009, our minimum mandatory expenditure requirement totaled \$50,525,000. During that time period, we expended \$264,690,000 in exploration activities, including the drilling of 24 wells. Our minimum work program requirement for the current period, which runs from July 10, 2009 to January 9, 2010 is \$8,565,000. Thereafter, our minimum annual expenditure requirements are: \$21,520,000 from January 2010 to January 2011; \$27,300,000 from January 2011 to January 2012; and \$14,880,000 from January 2012 to January 2013.

Since 2004 we have been actively drilling wells in each field on the ADE Block and since 2005 we have been drilling in the Southwest Block in the Kariman field. Our drilling activities have consisted in drilling an array of exploratory wells to delineate reservoir structures and developmental wells intended to provide income to the Company. During fiscal 2009 we completed a very active three-year drilling program. During this time we drilled 17 wells to an average depth of 3,800 meters. Beginning in September of 2008 we began to phase out our new well drilling activities and we have released four large drilling rigs since that date as current drilling projects were completed.

Our strategy for the current fiscal year is to establish a sound financial basis to support our development of a long-term and profitable oil and gas exploration and production business. We intend to do this by focusing our attention during the fiscal year on the following objectives:

- Reduce current accounts payable;
- Conduct field operations focused on maximizing production and field delineation; and
- Commence investigation of the Northwest Block.

#### *Drilling Operations, Well Performance and Production*

As noted above, we have shifted our operational focus from growth through drilling to working closely with our existing wellstock to enhance production from existing wells. In particular, we have successfully tested and are actively implementing a strategy of installing centrifugal submersible pumps at the Kariman field. This strategy has resulted in stabilization of production rates from certain Kariman wells. We are in the process of researching various available options for increasing production from our other fields.

During the fiscal quarter ended June 30, 2009, our average daily crude oil production was 2,469 barrels per day. We expect our production to remain stable should our strategy of working with the centrifugal submersible pumps prove to be a long-lasting success. However, we do recognize that in order to significantly increase our production we will need to engage in additional exploration activities. Further exploration, including 3D seismic, re-opening of existing wells and drilling of new wells, will heavily depend on our ability to obtain additional funding. Given the unfavorable global economic outlook, the current status of the financial sector and our own current financial situation, it may be very difficult for us to obtain additional funding.



## **Results of Operations**

*Three months ended June 30, 2009, compared to the three months ended June 30, 2008.*

### **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 June 30, 2009 and the three months ended June 30, 2008.

	For the three months ended <u>June 30, 2009</u>	For the three months ended <u>June 30, 2008</u>	Three months ended June 30, 2009 to the three months ended June 30, 2008	
			<u>\$</u> Increase (Decrease)	<u>%</u> Increase (Decrease)
<b>Production volumes:</b>				
Natural gas (Mcf)	-	-	-	-
Natural gas liquids (Bbls)	-	-	-	-
Oil and condensate (Bbls)	224,687	328,369	(103,682)	(32%)
Barrels of Oil equivalent (BOE)	224,687	328,369	(103,682)	(32%)
<b>Sales volumes:</b>				
Natural gas (Mcf)	-	-	-	-
Natural gas liquids (Bbls)	-	-	-	-
Oil and condensate (Bbls)	222,550	327,757	(105,207)	(32%)
Barrels of Oil equivalent (BOE)	222,550	327,757	(105,207)	(32%)
<b>Average Sales Price <sup>(1)</sup></b>				
Natural gas (\$ per Mcf)	-	-	-	-
Natural gas liquids (\$ per Bbl)	-	-	-	-
Oil and condensate (\$ per Bbl)	\$ 52.87	\$ 106.26	\$ (53.39)	(50%)
Barrels of Oil equivalent (\$ per BOE)	\$ 52.87	\$ 106.26	\$ (53.39)	(50%)
<b>Operating Revenue:</b>				
Natural gas	-	-	-	-
Natural gas liquids	-	-	-	-
Oil and condensate	\$ 11,766,806	\$ 34,827,224	\$ (23,060,418)	(66%)
Gain on hedging and derivatives <sup>(2)</sup>	-	-	-	-

(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 June 30, 2009, or the three months ended June 30, 2008.

*Revenues.* We generate revenue under our exploration contract from the sale of oil recovered during test production. As a result of decreases in reservoir pressure in some of our existing wells, during the three months ended June 30, 2009 our oil production decreased 32% compared to the three months ended June 30, 2008.

During the three months ended June 30, 2009 we realized revenue from oil sales of \$11,766,806 compared to \$34,827,224 during the three months ended June 30, 2008. The significant contributing factors to the 66% decrease in revenue were a 50% decrease in the price per barrel we received for oil sales and a 32% decrease in sales volume as a result of decreased production. During the three months ended June 30, 2009 and 2008 we exported 100% and 93% 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 100% and 99% of total revenue, respectively, during the three months ended June 30, 2009 and 2008. We anticipate production to remain fairly constant and currently anticipate revenues will be flat in upcoming quarters.

As discussed above, our revenue is sensitive to changes in prices received for our oil. Political instability, the economy, changes in legislation and taxation, reductions in the amount of oil we are allowed to export to the world markets, weather and other factors outside our control may also have an impact on both supply and demand and on revenue.

### Costs and Operating Expenses

The following table presents details of our costs and expenses for the three months ended June 30, 2009 and 2008:

	<b>For the three months ended June 30, 2009</b>	<b>For the three months ended June 30, 2008</b>
Expenses:		
Export duty	\$ -	\$ 1,352,917
Oil and gas operating <sup>(1)</sup>	3,092,437	2,340,843
General and administrative	4,851,766	4,337,641
Depletion <sup>(2)</sup>	2,243,304	3,333,289
Interest expense	1,148,047	-
Accretion expenses	107,847	95,958
Amortization and depreciation	130,973	63,659
Consulting expenses	-	11,727,500
<b>Total</b>	<b>\$ 11,574,374</b>	<b>\$ 23,251,807</b>
Expenses (\$ per BOE):		
Oil and gas operating <sup>(1)</sup>	13.90	7.14
Depletion <sup>(2)</sup>	10.08	10.17

(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 subject to the duty in June 2008. The formula for determining the amount of the crude oil export duty was based on a sliding scale that was tied to the world market price for oil. The amount of the export duty changed with fluctuations in world oil prices. In December 2008 the government of the Republic of Kazakhstan repealed the export duty effective January 26, 2009. We are now subject to the new tax code that went into effect on January 1, 2009, as discussed in more detail below. As a result of the export duty being repealed, we paid no export duty during the period ended June 30, 2009 compared to \$1,352,917. Export duty was not recorded as part of oil and gas operating expense and was not included in oil and gas operating expense per BOE calculation.

*Oil and Gas Operating Expenses.* During the three months ended June 30, 2009 we incurred \$3,092,437 in oil and gas operating expenses compared to \$2,340,843 during the three months ended June 30, 2008. This significant increase is primarily the result of the new rent export tax we became subject to with the effectiveness of the new tax code in January 2009. These increases were partially offset by decreases in payroll and related payments and transportation expenses.

The mineral extraction tax replaced the royalty we were paying under the prior version of the tax code. The rate of this tax depends upon annual production output. The new code currently provides for a 5% mineral extraction tax rate (6% in 2010 and 7% starting from 2011) on production sold to the export market, and a 2.5% tax rate (3% in 2010 and 3.5% starting from 2011) on production sold to the domestic market. During the three months ended June 30, 2009 mineral extraction tax paid to the government amounted to \$627,043. During the quarter ended June 30, 2008, royalty payments were \$901,561.

Rent export tax is calculated based on the export sales price and ranges from as low as 0% if the export sales price is less than \$40 per barrel to as high as 32% if the price per barrel exceeds \$190. During the three months ended June 30, 2009 rent export tax paid to the government amounted to \$1,533,437. We were not subject to the rent export tax during the three months ended June 30, 2008.

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.

During the three months ended June 30, 2009 payroll and related payments to production personnel decreased \$37,780 or 19% compared to the three months ended June 30, 2008. This decrease is due to decreases in production personnel as we have decreased our exploration activities.

Transportation expenses decreased \$469,545 or 38% as a result of the decreased volume of oil we produced and transported. We anticipate transportation expenses will continue to fluctuate in proportion to production volume.

As a result of our decreased production, while oil and gas operating expenses increased 32% on a cumulative basis during the three months ended June 30, 2009, expense per BOE during the same period increased 95%. Expense per BOE is a function of total expense divided by the number of barrels of oil we sell. During the three months ended June 30, 2008 we sold 327,757 barrels of oil, during the three months ended June 30, 2009 we sold 222,550 barrels of oil. The 32% decrease in production coupled with the 32% increase in oil and gas operating expenses resulted in a \$6.76, or 95%, increase in oil and gas operating expense per BOE.

*General and Administrative Expenses.* General and administrative expenses during the three months ended June 30, 2009 were \$4,851,766 compared to \$4,337,641 during the three months ended June 30, 2008. This represents a 12% increase. This increase in general and administrative expenses was the result of a 323% increase in non-cash compensation expense which was partially offset by decrease in:

- a 97% decrease in taxes resulting from environmental payments due to utilization of gas on Gas Utilization Facility;
- a 68% decrease in business trips and accommodation expenses;
- a 67% decrease in other taxes; and
- a 50% decrease in professional services resulting from decrease in legal fees incurred in our ongoing litigation.

During the three months ended June 30, 2009 we recognized non-cash compensation expense of \$2,401,576 resulting from restricted stock grants previously made to employees. By comparison, during the three months ended June 30, 2008 we recognized non-cash compensation expense in the amount of \$567,889 for restricted stock grants previously made to employees and outside consultants.

*Depletion.* Depletion expense for the three months ended June 30, 2009 decreased by \$1,089,985 compared to the three months ended June 30, 2008. The major reason for this decrease in depletion expense was a 32% decrease in sales volume during the three months ended June 30, 2009 compared to the three months ended June 30, 2008.

*Amortization and Depreciation.* Amortization and depreciation expense for the three months ended June 30, 2009 increased by a 106% compared to the three months ended June 30, 2008. The increase resulted from purchases of fixed assets during the quarter ended June 30, 2009.

*Income from Operations.* During the three months ended June 30, 2009 we realized income from operations of \$192,432 compared to income from operations of \$11,575,417 during the three months ended June 30, 2008. This decrease in income from operations during the three months ended June 30, 2009 is the result of the 66% decrease in revenue, which decrease was partially offset by a 50% decrease in total costs and operating expenses.

*Other Income.* During the three months ended June 30, 2009 we realized total other expense of \$161,650 compared to total other income of \$1,745,906 during the three months ended June 30, 2008. The change from other income to other expense between the respective quarters is largely attributable to \$1,650,293 we received from a Company shareholder during the quarter ended June 30, 2008, as disgorgement of profits earned in violation of the short-swing profit rules of Section 16b of the Securities Exchange Act of 1934 compared with a foreign exchange loss during the three months ended June 30, 2009 compared to a gain during the three months ended June 30, 2008.

*Net Income.* For the foregoing reasons, during the three months ended June 30, 2009 we realized net income of \$30,782 or \$0.00 per share compared to a net income of \$13,321,323 or \$0.30 per share for the three months ended June 30, 2008.

## **Liquidity and Capital Resources**

For the period from inception on May 6, 2003 through June 30, 2009, we have incurred capital expenditures of \$242,105,789 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 and revenue from oil sales. From inception to June 30, 2009 we 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 were used to pursue our drilling program. For additional detail regarding the Notes, including adjustments to the initial conversion price and the registration right of the Noteholders, see *Note 9 to the Notes to the Consolidated Financial Statements, June 30, 2009.*

Problems in the credit markets, the significant declines in worldwide oil prices and volatility and downward trends in the stock markets have caused many junior exploration and production companies, including us, to seek additional capital in order to stay in business. Some companies have been acquired by larger companies and others have failed.

At June 30, 2009, our current liabilities exceeded current assets by \$6,621,107. This continues to create liquidity problems for the Company in the near term. This gap in current liabilities over current assets arose from the steep decline in world oil prices, a drop in our current oil production and the export duty imposed by the government at a time when we were under contractual obligation to drill wells at four locations in the contract territory. In an effort to correct this situation we have ceased drilling new wells and we are working with creditors to establish payment schedules or other arrangements to reduce our current liabilities and continue operations. We have no assurance that we will be successful in negotiating favorable terms with our creditors.

## Cash Flows

During the three months ended June 30, 2009 cash was primarily used to fund exploration expenditures. See below for additional discussion and analysis of cash flow.

	Three months ended June 30, 2009	Three months ended June 30, 2008
Net cash provided by operating activities	\$ 5,608,169	\$ 33,328,226
Net cash used in investing activities	\$ (5,934,119)	\$(27,102,805)
Net cash provided by financing activities	\$ -	\$ -
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (325,950)</b>	<b>\$6,225,421</b>

Our principal source of liquidity during the three months ended June 30, 2009 was cash and cash equivalents. At March 31, 2009 cash and cash equivalents totaled approximately \$6.8 million. At June 30, 2009 cash and cash equivalents had decreased to approximately \$6.4 million. During the three months ended June 30, 2009 we spent approximately \$5.8 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 June 30, 2009, excluding current liabilities as listed on our consolidated balance sheet:

Contractual obligations	Payments Due By Period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Capital Expenditure Commitment <sup>(1)</sup>	\$ 72,265,000	\$ 19,325,000	\$ 45,500,000	\$ 7,440,000	\$ -
Due to the Government of the Republic of Kazakhstan <sup>(2)</sup>	11,719,880	50,000	300,000	11,369,880	-
Liquidation Fund	4,371,841	-	-	4,371,841	-
Convertible Notes with Interest <sup>(3)</sup>	74,823,785	3,000,000	6,000,000	65,823,785	-
<b>Total</b>	<b>\$ 163,180,506</b>	<b>\$ 22,375,000</b>	<b>\$ 51,800,000</b>	<b>\$ 89,005,506</b>	<b>\$ -</b>

(1) Under the terms of our subsurface exploration contract we are required to spend a total of \$72.7 million in exploration activities on our properties, including a minimum of \$8.6 million by January 2010, \$21.5 million by January 2011, \$27.3 million by January 2012 and \$14.9 million by January 2013. As of June 30, 2009, we have spent a total of \$264.7 million in exploration activities.

- (2) In connection with our acquisition of the oil and gas contract covering the ADE Block, the Southeast Block and the Northwest Block, 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 commercial production rights, we can relinquish the ADE Block, the Southeast Block and/or the Northwest Block to the ROK in satisfaction of their associated obligations. The recent addendum to our exploration contract which granted us rights to the Northwest Block also requires us to:
- 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 amount of \$50,000 from 2009 to 2012.
- (3) 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”). The Notes carry a 5% coupon and have a yield to maturity of 6.25%. Interest will be paid at a rate of 5.0% per annum on the principal amount, payable semiannually. The Notes are callable and subject to early redemption in July 2010. 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. For additional details regarding the terms of the Notes, see Note 9 – Convertible Notes Payable to the notes to our Consolidated Financial Statements.

### **Off-Balance Sheet Financing Arrangements**

As of June 30, 2009, we had no off-balance sheet financing arrangements.

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

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

#### **Commodity Price Risk**

Our revenues, profitability and future growth depend substantially on prevailing prices for crude oil. Prices also affect the amount of cash flow available for capital expenditures and our ability to either borrow or raise additional capital. Price affects our ability to produce crude oil economically and to transport and market our production either through export to international markets or within Kazakhstan. Our first fiscal quarter 2010 crude oil sales in the international export market were based on prevailing market prices at the time of sale less applicable discounts due to transportation.

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

During the fiscal quarter ended June 30, 2009, we sold 222,550 barrels of oil and condensate. We realized an average sales price per barrel of \$52.873. For purposes of illustration, assuming the same sales volume but decreasing the average sales price we receive from oil sales by \$5.00 and \$10.00 respectively would change total revenue from oil sales as follows:

	Average Price Per Barrel	Barrels of Oil Sold	Approximate Revenue from Oil Sold (in thousands)	Reduction in Revenue (in thousands)
Actual sales for the three months ended June 30, 2009	\$52.873	222,550	\$11,767	\$ -
Assuming a \$5.00 per barrel reduction in average price per barrel	\$47.873	222,550	\$10,654	\$1,113
Assuming a \$10.00 per barrel reduction in average price per barrel	\$42.873	222,550	\$9,541	\$2,225

#### 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.

Our foreign-denominated monetary assets and liabilities are revalued on a monthly basis with gains and losses on revaluation reflected in net income. A hypothetical 10% favorable or unfavorable change in foreign currency exchange rate at June 30, 2009 would have affected our net income by less than \$1 million.



## **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 June 30, 2009.

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

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2009 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 2009 Annual Report on Form 10-K, 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 6. Exhibits**

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
Exhibit 10.27	Debt Purchase Agreement, dated June 26, 2009 between BMB Munai, Inc. and Simage Limited <sup>(1)</sup>
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*

\* Filed or furnished herewith.

<sup>(1)</sup> Incorporated by reference to Registrant's Current Report on Form 8-K filed with the Commission on June 29, 2009.

**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: August 10, 2009                      /s/ Gamal Kulumbetov  
Gamal Kulumbetov  
Chief Executive Officer

Date: August 10, 2009                      /s/ Evgeny Ler  
Evgeny Ler  
Chief Financial Officer



## EXHIBIT 12.1

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

	Three months ended June 30,	
	2009	2008
<b>Earnings:</b>		
Income before income taxes	\$ 30,782	\$ 13,321,323
Add: Fixed charges	1,148,047	1,135,842
Add: Amortisation of capitalized interest	9,870	16,963
Less: Interest capitalized	-	(1,135,842)
Total earnings	1,188,699	13,338,286
<b>Fixed charges:</b>		
Interest expensed and capitalized	750,000	750,000
Amortized premiums, discounts, & bond costs	398,047	385,842
Total fixed charges	1,148,047	1,135,842
<b>Ration of earnings to fixed charges</b>	<b>1.04</b>	<b>11.74</b>

**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: August 10, 2009

/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, Evgeny Ler, 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: August 10, 2009

/s/ Evgeny Ler  
Evgeny Ler  
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 June 30, 2009, 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: August 10, 2009

/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 June 30, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Evgeny Ler, 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: August 10, 2009

/s/ Evgeny Ler  
Evgeny Ler  
Chief Financial Officer