UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q/A
(Amendment No. 1)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended December 31, 2008

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

Commission File Number 001-33034

BMB MUNAI, INC.
(Exact name of registrant as specified in its charter)

Nevada	30-0233726
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
202 Dostyk Ave, 4th Floor Almaty, Kazakhstan	**050051**
(Address of principal executive offices)	(Zip Code)

+7 (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 filed, 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 [ ] (Do not check if a smaller reporting company)	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 February 4, 2009, the registrant had 47,378,420 shares of common stock, par value $0.001, issued and outstanding.

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Explanatory Note to Amendment No. 1 to Quarterly Report on Form 10-Q

BMB Munai, Inc. (the "Company") is filing this Amendment No. 1 on Form 10-Q/A (the "First Amendment") to amend its Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2008, which was filed with the Securities and Exchange Commission ("SEC") on February 6, 2009 (the "Original Quarterly Report"). During the fourth quarter of the fiscal year ended March 31, 2008, the Company discovered certain errors in its accounting for deferred income taxes during the fiscal years ended March 31, 2006, 2007 and during the interim periods of fiscal 2008. Believing these adjustments to be changes in accounting estimates rather than accounting errors, the Company reported the accounting adjustments in its annual report on Form 10-K for the year ended March 31, 2008, as fourth quarter adjustments. During that fourth quarter, the Company also implemented new policies to enhance its controls to require its reporting manager to become more familiar with Kazakhstan taxation issues and to require the reporting manager to specifically give consideration to taxation issues in connection with the preparation of the Company's annual and interim financial statements.

Subsequent to filing the Form 10-K for the year ended March 31, 2008, the Company determined the adjustments reported for the accounting for deferred income taxes was a correction of an error rather than a change in estimate, as disclosed in the Current Report on Form 8-K filed on July 8, 2009 and subsequent amendments thereto.

The changes presented in this First Amendment, as detailed below, are made to present corrected prior period financial information and disclosure of accounting for deferred income taxes for the year ended March 31, 2008 and the interim periods ended December 30, 2007. As noted above, the Company had enhanced its controls and procedures for the accounting for deferred income taxes as of March 31, 2008. Therefore, all adjustments presented in this amendment relate to periods prior to March 31, 2008. Periods subsequent to March 31, 2008 are not effected as controls and procedures for deferred income taxes were operating effectively.

Part I, Item 1 *Unaudited Consolidated Financial Statements* of the Original Quarterly Report is hereby amended. Specifically, the *Consolidated Statements of Operations (unaudited)* is hereby amended to provide restated *Income tax expense*, N*et(loss)/ income*, *Basic net(loss)/ income per common share* and *Diluted net(loss)/ income per common share* figures for the three and nine months ended December 31, 2007. The *Consolidated Statements of Cash Flows (unaudited)* is hereby amended to provide restated *Net Income* and to remove an *Income tax provision* of $7,421,832 for the nine months ended December 31, 2007.

The *Notes to the Unaudited Consolidated Financial Statements December 31, 2008* are also hereby amended. Note 2 has been revised to add a *Restatement of Financial Statements* section and to provide revisions to the *Major customers, Share-based compensation and Oil and gas properties* sections of Note 2. Note 16 – *Income Taxes* has been amended to clarify income tax treatment in Kazakhstan of Company revenues and exploration and development costs under the terms of the Company's Exploration Contract with the Republic of Kazakhstan. Note 17- *Earnings per Share Information* is hereby amended to provide correct *Net(loss)/ income*, *Basic (loss)/income per common share* and *Dilutive (loss)/income per common share* figures for the three and nine months ended December 31, 2007.

Part I, Item 2 *Management's Discussion and Analysis of Financial Condition and Results of Operations* is hereby amended to: clarify the nature of environmental payments made by the Company; provide corrected N*et income* and *Net income per share* figures for the three and nine months ended December 31, 2007; and to provide additional disclosure regarding the Company's convertible notes.

Part I, Item 3 *Qualitative and Quantitative Disclosures About Market Risk* is also hereby amended to provide additional quantitative information regarding commodity price risk and foreign currency risk.

Part II, Item 6 *Exhibits* has been revised to incorporate by reference into this First Amendment, *Exhibit 10.1* and *Exhibit 12.1* from the Original Quarterly Report.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, this First Amendment also includes currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certification exhibits and signatures have been revised accordingly.

This First Amendment speaks only to the original filing date of the Original Quarterly Report. This First Amendment does not reflect events after the filing of the Original Quarterly Report or modify or update those disclosures affected by subsequent events. Therefore, you should read this First Amendment together with the other reports of the Company that update and supersede the information contained in this First Amendment.

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

	Notes	December 31, 2008 (unaudited)	March 31, 2008
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	$ 7,473,660	$ 17,238,837
Trade accounts receivable		715,001	5,865,712
Prepaid expenses and other assets, net	4	3,289,030	3,415,261
Total current assets		11,477,691	26,519,810
LONG TERM ASSETS			
Oil and gas properties, full cost method, net	5	242,922,070	183,042,971
Inventories for oil and gas projects	6	14,166,682	11,008,898
Prepayments for materials used in oil and gas projects		134,233	11,893,451
Other fixed assets, net		6,671,980	3,134,090
Construction in progress	7	7,841,561	7,261,561
Long term VAT recoverable	8	8,784,501	8,106,397
Convertible notes issue cost		2,679,832	3,248,218
Restricted cash		737,402	622,697
Total long term assets		283,938,261	228,318,283
TOTAL ASSETS		**295,415,952**	**254,838,093**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		$ 31,929,981	$ 21,374,723
Accrued coupon payment		1,391,667	641,667
Accrued liabilities and other payables		1,076,385	1,209,070
Total current liabilities		34,398,033	23,225,460
LONG TERM LIABILITIES			
Convertible notes issued, net	9	61,132,109	60,535,455
Liquidation fund	10	4,897,510	3,728,531
Deferred taxes	16	7,544,716	7,544,716
Total long term liabilities		73,574,335	71,808,702
COMMITMENTS AND CONTINGENCIES	19	-	-
SHAREHOLDERS' EQUITY			
Preferred stock - $0.001 par value; 20,000,000 shares authorized; no shares issued or outstanding	11	-	-
Common stock - $0.001 par value; 500,000,000 shares authorized, 47,378,420 and 44,784,134 shares outstanding, respectively	11	47,378	44,784
Additional paid in capital	11	149,132,212	136,353,520
Retained earnings		38,263,994	23,405,627
Total shareholders' equity		187,443,584	159,803,931
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 295,415,952**	**$ 254,838,093**

See notes to the unaudited consolidated financial statements.

BMB MUNAI, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Notes	Three months ended December 31, 2008 (unaudited)	Three months ended December 31, 2007 (unaudited, restated)	Nine months ended December 31, 2008 (unaudited)	Nine months ended December 31, 2007 (unaudited, restated)
REVENUES	12	$ 4,883,790	$ 16,832,612	$ 62,469,174	$ 41,177,967
COSTS AND OPERATING EXPENSES					
Export duty	13	2,172,559	-	7,912,459	-
Oil and gas operating		1,449,981	1,538,143	6,065,686	3,768,513
General and administrative		6,764,698	3,988,250	17,350,218	10,954,205
Consulting expenses	14	-	-	8,662,500	-
Depletion		2,686,439	1,716,899	9,105,564	4,223,854
Amortization and depreciation		71,870	62,850	218,610	175,069
Accretion expense		121,138	70,235	325,494	162,594
Total costs and operating expenses		13,266,685	7,376,377	49,640,531	19,284,235
(LOSS)/INCOME FROM OPERATIONS		(8,382,895)	9,456,235	12,828,643	21,893,732
OTHER INCOME / (EXPENSE)					
Foreign exchange gain, net		90,769	79,774	132,344	2,224
Disgorgement funds received	15	-	-	1,650,293	-
Interest income		59,754	421,090	366,945	1,060,480
Other expense, net		(60,610)	(101,037)	(119,858)	(210,273)
Total other income		89,913	399,827	2,029,724	852,431
(LOSS)/INCOME BEFORE INCOME TAXES		(8,292,982)	9,856,062	14,858,367	22,746,163
INCOME TAX EXPENSE	16	-	-	-	-
NET (LOSS)/INCOME		$ (8,292,982)	$ 9,856,062	$ 14,858,367	$ 22,746,163
BASIC NET (LOSS) / INCOME PER COMMON SHARE	17	$ (0.18)	$ 0.22	$ 0.32	$ 0.51
DILUTED NET (LOSS) / INCOME PER COMMON SHARE	17	$ (0.18)	$ 0.22	$ 0.32	$ 0.51

See notes to the unaudited consolidated financial statements.

BMB MUNAI, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Nine Months Ended December 31,	Notes	2008 (unaudited)	2007 (unaudited, restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		$ 14,858,367	$ 22,746,163
Adjustments to reconcile net income to net cash provided by operating activities:			
Depletion	5	9,105,564	4,223,854
Depreciation and amortization		218,610	175,069
Accretion expenses	10	325,494	162,594
Stock based compensation expense to non-employees	14	7,662,500	-
Stock based compensation expense	11	5,068,785	1,479,804
Stock issued for services		-	251,067
Loss on disposal of fixed assets		-	57,185
Changes in operating assets and liabilities:			
Decrease/(increase) in trade accounts receivable		5,150,711	(2,290,242)
Decrease/(increase) in prepaid expenses and other assets		126,231	(3,842,467)
Increase in VAT recoverable		(678,104)	(2,335,601)
Increase in current liabilities		10,422,573	10,292,750
Net cash provided by operating activities		52,260,731	30,920,176
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of oil and gas properties	5	(64,321,824)	(55,974,252)
Purchase of other fixed assets		(4,160,814)	(1,760,222)
Cash paid for convertible notes coupon, capitalized as oil and gas properties		(1,500,000)	-
Decrease/(increase) in prepayments for materials used in oil and gas projects		11,759,218	(7,395,564)
(Increase)/decrease in inventories for oil and gas projects		(3,157,784)	349,640
Increase in construction in progress		(580,000)	(2,017,552)
Increase in restricted cash		(114,705)	(319,000)
Net cash used in investing activities		(62,075,909)	(67,116,950)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of common stock options and warrants	11	50,001	-
Proceeds from issuance of convertible debt		-	56,210,763
Net cash provided by financing activities		50,001	56,210,763
NET CHANGE IN CASH AND CASH EQUIVALENTS		(9,765,177)	20,013,989
CASH AND CASH EQUIVALENTS at beginning of period		**17,238,837**	**12,172,940**
CASH AND CASH EQUIVALENTS at end of period		**$ 7,473,660**	**$ 32,186,929**

See notes to the unaudited consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

For the Nine Months Ended December 31,	Notes	2008 (unaudited)	2007 (unaudited, restated)
Non-Cash Investing and Financing Activities			
Asset retirement obligation incurred in property development	10	$ 843,485	$ 511,125
Coupon payment on convertible notes, capitalized as part of oil and gas properties	9	2,250,000	1,391,667
Accretion of discount on convertible notes, capitalized as part of oil and gas properties	9	596,654	348,197
Amortization of convertible notes issue costs, capitalized as part of oil and gas properties		$ 568,386	$ 351,557

See notes to the unaudited consolidated financial statements.

NOTE 1 - DESCRIPTION OF BUSINESS

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

The consolidated financial information included herein is unaudited, except for the balance sheet as of March 31, 2008, which is derived from the Company’s audited consolidated financial statements for the year ended March 31, 2008. However, such information includes all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim periods. The consolidated results of operations for the interim period are not necessarily indicative of the consolidated results to be expected for an entire year.

Certain information and footnote disclosures normally included in financial statements, prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted in this Quarterly Report on Form 10-Q, pursuant to certain rules and regulations of the Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our Annual Report for the year ended March 31, 2008 on Form 10-K, as amended.

The accounting principles applied are consistent with those as set out in the Company's annual Consolidated Financial Statements for the year ended March 31, 2008.

Basis of consolidation

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

Use of estimates

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

Restatement of Financial Statements

In response to comments raised by the staff of the Securities and Exchange Commission, the Company commenced a review of its accounting relating to the calculation of deferred income taxes. Based on the Company's internal review, and after consultation with the audit committee of the Company's board of directors, as well as the Company's independent registered public accounting firm, on May 6, 2009, the Company concluded that its audited financial statements for the periods ended March 31, 2008 and 2007, and the unaudited financial statements for the periods ended June 30, 2007, September 30, 2007 and December 31, 2007 are required to be restated due to accounting errors in those periods relating to the Company's accounting for deferred income taxes. Based on ongoing discussion with the staff of the Securities and Exchange Commission, the Company has also concluded that changes need to be made to the income tax disclosure contained in its audited financial statements for the period ended March 31, 2007 to correct certain inconsistencies in its accounting for foreign taxes and stock based compensation.

The restatements result from the Company:

- erroneously recording a tax expense based on income from Kazakhstan operations that, pursuant to the Company's license and contract with the Republic of Kazakhstan and Kazakhstan tax law, the Company was not liable to recognize, due to the fact that the Company is operating in the exploration phase;
- improperly applying foreign tax rates to temporary differences primarily relating to its U.S. investments in oil and gas properties and to U.S. accrued interest income; and

Following is a summary of the effects of these adjustments on the Company's Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Cash Flows as of, and for the periods ending, March 31, 2007, June 30, 2007, September 30, 2007, December 31, 2007 and March 31, 2008:

CONSOLIDATED BALANCE SHEETS

	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
MARCH 31, 2007:			
Deferred taxes	$7,948,297	($299,999)	$7,648,298
Total long term liabilities	$10,114,126	($299,999)	$9,814,127
Accumulated deficit	($8,204,936)	$299,999	($7,904,937)
Total shareholders' equity	$125,561,620	$299,999	$125,861,619
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$144,796,045	$0	$144,796,045
JUNE 30, 2007:			
Deferred taxes	$9,475,728	($1,827,430)	$7,648,298
Total long term liabilities	$11,670,225	($1,827,430)	$9,842,795
Accumulated deficit	($4,322,679)	$1,827,430	($2,495,249)
Total shareholders' equity	$130,020,834	$1,827,430	$131,848,264
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$154,028,651	$0	$154,028,651
SEPTEMBER 30, 2007:			
Deferred taxes	$12,019,068	($4,370,770)	$7,648,298
Total long term liabilities	$74,747,418	($4,370,770)	$70,376,648
Retained earnings	$614,394	$4,370,770	$4,985,164
Total shareholders' equity	$135,534,864	$4,370,770	$139,905,634
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$222,830,745	$0	$222,830,745
DECEMBER 31, 2007:			
Deferred taxes	15,370,129	(7,721,831)	7,648,298
Total long term liabilities	78,557,874	(7,721,831)	70,836,043
Retained earnings	7,119,395	7,721,831	14,841,226
Total shareholders' equity	142,616,822	7,721,831	150,338,653
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$241,979,412	$0	$241,979,412
MARCH 31, 2008:			
Deferred taxes	$7,544,716	$0	$7,544,716
Total long term liabilities	$71,808,702	$0	$71,808,702
Retained earnings	$23,405,627	$0	$23,405,627
Total shareholders' equity	$159,803,931	$0	$159,803,931
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$254,838,093	$0	$254,838,093

CONSOLIDATED STATEMENTS OF OPERATIONS

	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
YEAR ENDED MARCH 31, 2007:			
Income tax (expense)/benefit	($853,280)	$1,148,609	$295,329
Net income	$1,039,491	$1,148,609	$2,188,100
Basic net income per common share	$0.02	$0.03	$0.05
Diluted net income per common share	$0.02	$0.03	$0.05
3 MONTHS ENDED JUNE 30, 2007:			
Income tax expense	($1,527,431)	$1,527,431	$0
Net income	$3,882,257	$1,527,431	$5,409,688
Basic net income per common share	$0.09	$0.03	$0.12
Diluted net income per common share	$0.09	$0.03	$0.12
3 MONTHS ENDED SEPTEMBER 30, 2007:			
Income tax expense	($2,543,340)	$2,543,340	$0
Net income	$4,937,073	$2,543,340	$7,480,413
Basic net income per common share	$0.11	$0.06	$0.17
Diluted net income per common share	$0.11	$0.06	$0.17
6 MONTHS ENDED SEPTEMBER 30, 2007:			
Income tax expense	($4,070,771)	$4,070,771	$0
Net income	$8,819,330	$4,070,771	$12,890,101
Basic net income per common share	$0.20	$0.09	$0.29
Diluted net income per common share	$0.20	$0.09	$0.29
3 MONTHS ENDED DECEMBER 31, 2007:			
Income tax expense	($3,351,061)	$3,351,061	$0
Net income	$6,505,001	$3,351,061	$9,856,062
Basic net income per common share	$0.15	$0.07	$0.22
Diluted net income per common share	$0.14	$0.08	$0.22
9 MONTHS ENDED DECEMBER 31, 2007:			
Income tax expense	($7,421,832)	$7,421,832	$0
Net income	$15,324,331	$7,421,832	$22,746,163
Basic net income per common share	$0.34	$0.16	$0.51
Diluted net income per common share	$0.34	$0.17	$0.51
YEAR ENDED MARCH 31, 2008:			
Income tax benefit	$403,581	($299,999)	$103,582
Net income	$31,610,563	($299,999)	$31,310,564
Basic net income per common share	$0.71	($0.01)	$0.70
Diluted net income per common share	$0.70	$0.00	$0.70

CONSOLIDATED STATEMENTS OF CASH FLOWS

	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
YEAR ENDED MARCH 31, 2007:			
Net Income	$1,039,491	$1,148,609	$2,188,100
Income tax (benefit)/provision	$853,280	($1,148,609)	($295,329)
Net cash used in operating activities	$5,914,292	$0	$5,914,292
3 MONTHS ENDED JUNE 30, 2007:			
Net Income	$3,882,257	$1,527,431	$5,409,688
Income tax (benefit)/provision	$1,527,431	($1,527,431)	$0
Net cash provided by operating activities	$8,634,117	$0	$8,634,117
6 MONTHS ENDED SEPTEMBER 30, 2007:			
Net Income	$8,819,330	$4,070,771	$12,890,101
Income tax (benefit)/provision	$4,070,771	($4,070,771)	$0
Net cash provided by operating activities	$10,708,506	$0	$10,708,506
9 MONTHS ENDED DECEMBER 31, 2007:			
Net Income	$15,324,331	$7,421,832	$22,746,163
Income tax (benefit)/provision	$7,421,832	($7,421,832)	$0
Net cash provided by operating activities	$30,920,176	$0	$30,920,176
YEAR ENDED MARCH 31, 2008:			
Net Income	$31,610,563	($299,999)	$31,310,564
Income tax (benefit)/provision	($403,581)	$299,999	($103,582)
Net cash provided by operating activities	$49,981,194	$0	$49,981,194

The consolidated statement of cash flows for the nine months ended December 31, 2007 has been restated to correct the classification of inventories of materials for oil and gas projects and prepayments for materials used in oil and gas projects from current assets to long term assets. The Company concluded inventories of materials for oil and gas projects and prepayments for materials used in oil and gas projects should be treated as long term assets due to their future classification to oil and gas properties once the materials are used in the projects. The correction of these balances had no effect on the previously reported net income. The effects of the restatements were as follows:

	As Previously Reported	Effect of Restatement	As Restated
Consolidated Statement of Cash Flows			
For the nine months ended December 31, 2007			
Decrease in inventories	$ 349,640	$ (349,640)	$ -
Increase in prepaid expenses and other assets	(11,238,031)	7,395,564	(3,842,467)
Net cash provided by operating activities	**23,874,252**	**7,045,924**	**30,920,176**
Increase in prepayments for materials used in oil and gas projects	-	(7,395,564)	(7,395,564)
Decrease in inventories for oil and gas projects	-	349,640	349,640
Net cash used in investing activities	**(60,071,026)**	**(7,045,924)**	**(67,116,950)**
Net change in cash and cash equivalents	**20,013,989**	**$ -**	**$ 20,013,989**

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.

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 nine months ended December 31, 2008 and 2007, sales to one customer represented 81% and 91%, respectively, of total sales volume. While the loss of this customer could have a material adverse affect on the Company in the short-term, the loss of this customer shoud not materially adversely effect 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 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 private equity placement transactions have been offset to the proceeds as a cost of capital. Stock options and stocks granted to other non-employees are recognized in the Consolidated Statements of Operations.

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

Share-based compensation incurred for the nine months ended December 31, 2008 and 2007 was $5,068,785 and $1,479,804, respectively.

Risks and uncertainties

The ability of the Company to realize the carrying value of its assets is dependent on being able to develop, transport and market oil and gas. Currently exports from the Republic of Kazakhstan are primarily dependent on transport routes either via rail, barge or pipeline, through Russian territory. Management believes that over the life of the project, transportation options will improve as additional pipelines and rail-related infrastructure is built that will increase transportation capacity to the world markets; however, there is no assurance that this will happen in the near future.

Recognition of revenue and cost

Revenue and associated costs from the sale of oil are charged to the period when persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable, collectability is reasonably assured, delivery of oil has occurred or when ownership title transfers. Produced but unsold products are recorded as inventory until sold.

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 issued a resolution that cancelled the export duty effective January 26, 2009 for companies operating under the new tax code. With the enactment of a new tax codes and an amendment to our contract, the Company became subject to two new taxes effective January 1, 2009:

- *Mineral Extraction Tax.* This tax replaced the royalty the Company had previously been paying. The rate of this tax depends on annual production output. Currently is subject to a 5% mineral extraction tax rate on production sold to export market, and a 2.5% tax rate on production sold to domestic market.

- *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.

Income taxes

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

Cash and cash equivalents

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

Prepaid expenses and other assets

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

Prepayments for materials used in oil and gas projects

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

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 December 31, 2008 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 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 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 a 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 adequacy of the liquidation fund is periodically reviewed in the light of current laws and regulations, and adjustments are 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, where not capitalized as part of oil and gas properties.

Restricted cash

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

Functional currency

The Company makes its principal investing and financing transactions in U.S. Dollars and the U.S, Dollar is therefore its functional currency.

Income per common share

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

Recent accounting pronouncements

In May 2008, the FASB issued Statement No. 163, *"Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60"* . This Statement requires that an insurance enterprise recognize a claim liability when the insurance enterprise expects, based on the present value of expected net cash outflows to be paid under the insurance contract discounted using a risk-free rate, that a claim loss will exceed the unearned premium revenue. That approach is similar to the recognition approach for some liabilities for future policy benefits relating to a long-duration insurance contract in Statement 60. An insurance enterprise is required to measure the claim liability equal to the present value of expected net cash outflows. Expected net cash outflows are probability-weighted cash flows that reflect the likelihood of all possible outcomes for payments by the insurance enterprise under the insurance contract. Under this Statement, the expected net cash outflows are developed using the insurance enterprise's own assumptions about the likelihood of all possible outcomes based on all information available to the insurance enterprise (including relevant market information). An insurance enterprise is required to provide expanded disclosures about financial guarantee insurance contracts. Those disclosures would focus, in part, on the information included in the risk-management activities used by the insurance enterprise to evaluate credit deterioration in its insured financial obligations, including (1) the groupings or categories used to track insured financial obligations with credit deterioration, (2) the insurance enterprise's policies for placing an insured financial obligation in and monitoring each grouping or category, and (3) financial information about the insured financial obligations included within those groupings and categories. This Statement is effective for financial statements issued for the fiscal years and interim periods beginning after December 15, 2008. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

In May 2008, the FASB issued Statement No. Statement No. 162, " *The Hierarchy of Generally Accepted Accounting Principles."* This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The Board does not expect that this Statement will result in a change in current practice. However, transition provisions have been provided in the unusual circumstance that the application of the provisions of this Statement results in a change in practice. This Statement is effective after 60 days following the SEC's approval of the PCAOB amendment to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

In March 2008, the FASB issued Statement No. 161, *"Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB 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 December 2007, the FASB issued Statement No. 160, *"Non-controlling Interests in Consolidated Financial Statements"*. This Statement requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of income; changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value; entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. This Statement is effective for financial statements issued for the fiscal years beginning after December 15, 2008. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

In December 2007, the FASB issued a revision of Statement No. 141 (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 September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP FIN) No. 157-2 which extended the effective date for certain nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The Company does not expect the adoption of SFAS No. 157 to have a material impact on the consolidated financial statements.

NOTE 3 - CASH AND CASH EQUIVALENTS

As of December 31, 2008 and March 31, 2008 cash and cash equivalents included:

	December 31, 2008	March 31, 2008
US Dollars	$ 7,365,366	$ 17,088,631
Foreign currency	108,294	150,206
	$7,473,660	**$ 17,238,837**

As of December 31, 2008 and March 31, 2008 cash and cash equivalents included $3,169,573 and $14,203,574 placed in money market funds having 30 day simple yields of 0.61% and 2.58%, respectively.

NOTE 4 - PREPAID EXPENSES AND OTHER ASSETS

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

	December 31, 2008	March 31, 2008
Advances for services	$ 2,807,307	$ 3,121,580
Other	828,700	640,658
Reserves against uncollectible advances and prepayments	(346,977)	(346,977)
	$ 3,289,030	**$ 3,415,261**

NOTE 5 - OIL AND GAS PROPERTIES

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

	December 31, 2008	March 31, 2008
Cost of drilling wells	$ 96,173,753	$ 72,109,470
Professional services received in exploration and development activities	55,052,889	39,229,037
Material and fuel used in exploration and development activities	51,193,888	35,184,595
Subsoil use rights	20,788,119	20,788,119
Geological and geophysical	7,863,627	5,595,496
Deferred tax	7,219,219	7,219,219
Capitalized interest, accreted discount and amortized bond issue costs on convertible notes issued	6,633,181	3,218,141
Infrastructure development costs	2,964,303	2,099,444
Other capitalized costs	16,961,785	10,422,580
Accumulated depletion	(21,928,694)	(12,823,130)
	$ 242,922,070	**$ 183,042,971**

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

In November 2007 the Company entered into a consulting agreement with Caspian Energy Consulting Ltd. (“Consultant”). In addition to extending the existing exploration contract, which is described in Note 14, the consulting agreement provided that in the event the Consultant is successful in execution and delivery to the Company of a new exploration contract for a new contract territory, the Company will pay the amount of $4,000,000. As discussed in Note 19, the Consultant was successful in extending the Company’s contract territory. Due to the territory extension increasing the Company’s drilling area, as well as increasing possible reserves, these expenditures have been accrued and capitalized as part of oil and gas properties.

NOTE 6 – INVENTORIES FOR OIL AND GAS PROJECTS

As of December 31, 2008 and March 31, 2008 inventories included:

	December 31, 2008	March 31, 2008
Construction material	$ 13,068,611	$ 10,155,334
Spare parts	84,150	35,770
Other	1,013,921	817,794
	$ 14,166,682	**$ 11,008,898**

NOTE 7 - CONSTRUCTION IN PROGRESS

On April 13, 2006 the Company entered into an Agreement on Joint Business (the "Agreement") with Ecotechnic Chemicals AG incorporated in Switzerland, ("Ecotechnic") for construction of a facility to utilize the associated gas from the Company's fields (the "Facility").

In accordance with terms of the Agreement, as of December 31, 2008 and March 31, 2008, the Company has made payments of $7,841,561 and $7,261,561, respectively, for development of project documentation, purchase of equipment, transportation and customs, and construction of a gas pipe-line.

NOTE 8 - LONG TERM VAT RECOVERABLE

As of December 31, 2008 and March 31, 2008 the Company had long term VAT recoverable in the amount of $8,784,501 and $8,106,397, respectively. The VAT recoverable is a Tenge denominated asset due from the Republic of Kazakhstan. The VAT recoverable consists of VAT paid on local expenditures and imported goods. VAT charged to the Company is recoverable in future periods as either cash refunds or offsets against the Company's fiscal obligations, including future income tax liabilities. Management cannot estimate which part of this asset will be realized in the current year because in order to return funds or offset this tax with other taxes a tax examination must be performed by local Kazakhstan tax authorities. During the nine months ended December 31, 2008 the Company received refunds of VAT in the amount of $2,818,787.

NOTE 9 - CONVERTIBLE NOTES PAYABLE

On July 16, 2007 the Company completed the private placement of $60 million in principal amount of 5.0% convertible senior notes due 2012 (“Notes”) to non-U.S. persons outside of the United States in accordance with Regulation S under the U.S. Securities Act of 1933, as amended (the “Securities Act”) and in compliance with the laws and regulations applicable in each country where the placement took place.

The Notes carry a 5% coupon and have a yield to maturity of 6.25%. Interest is paid at a rate of 5.0% per annum on the principal amount, payable semiannually in arrears on January 13 and July 13 of each year.

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

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:

Conversion Date	Percentage
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.

Conversion Date	Amount
On or before July 13, 2008	$0.12239
Thereafter, but on or before July 13, 2009	$0.07246
Thereafter, but on or before July 13, 2010	$0.02250
Thereafter, but on or before July 13, 2011	$0
Thereafter, and until Maturity Date	$0

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

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

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

- have been effectively registered under the Securities Act and disposed of in accordance with the registration statement relating thereto;

- may be resold without restriction pursuant to Rule 144 under the Securities Act or any successor provision thereto;

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

- have been publicly sold pursuant to Rule 144 under the Securities Act or any successor provision thereto.

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

As of December 31, 2008 and March 31, 2008 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 $1,132,109 and $535,455 as of December 31, 2008 and March 31, 2008, respectively. The carrying value of convertible notes will be accreted to the redemption value of $64,323,785.

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

	December 31, 2008	March 31, 2008
Convertible notes redemption value	$ 64,323,785	$ 64,323,785
Unamortized discount	(3,191,676)	(3,788,330)
	$ 61,132,109	**$ 60,535,455**

In accordance with SFAS No. 34, *Capitalization of Interest* and FIN 33, *Applying FASB Statement No. 34 to Oil and Gas Producing Operations Accounted for by the Full Cost Method and Interpretation of FASB Statement No. 34*, accrued interest expense in the amount of $2,250,000 and accretion expense relating to the discount on convertible notes (difference between the redemption amount and the carrying amount as of the date of issue) in the amount of $596,654 was capitalized to oil and gas properties for the nine months ended December 31, 2008.

NOTE 10 - LIQUIDATION FUND

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

	Total
At March 31, 2008	**$ 3,728,531**
Accrual of liability	843,485
Accretion expenses	325,494
At December 31, 2008	**$ 4,897,510**

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 December 31, 2008, undiscounted expected future cash flows that will be required to satisfy the Company's obligation by 2013 for the Dolinnoe, Aksaz, Emir and Kariman fields, respectively, are $7,306,125. After application of a 10% discount rate, the present value of the Company's liability at December 31, 2008 and March 31, 2008 was $4,897,510 and $3,728,531, respectively.

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 will now vest on the earlier of July 9, 2009 and the occurrence of an Extraordinary Event.

Compensation expense in the amount of $1,703,667 was recognized in the Consolidated Statement of Operations and Consolidated Balance Sheet for the nine months ended December 31, 2008.

As of December 31, 2008, there was $1,135,778 of total unrecognized non-cash compensation expense related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 0.5 years.

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

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

On July 17, 2008 at the recommendation of the compensation committee of the board of directors, the Company's board of directors approved, subject to certain vesting requirements, restricted stock awards to certain executive officers, directors, employees and outside consultants of the Company pursuant to the BMB Munai, Inc. 2004 Stock Incentive Plan (the "2004 Plan"). The total number of shares granted was 1,330,000. Grants were made to 14 people, 12 of whom are non-U.S. persons. The restricted stock grants were made without registration pursuant to Regulation S of the Securities Act Rules and/or Section 4(2) under the Securities Act of 1933. The restricted stock grants 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 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 $3,365,118 was recognized in the Consolidated Statement of Operations and Consolidated Balance Sheet for the nine months ended December 31, 2008.

As of December 31, 2008, there was $3,989,782 of total unrecognized non-cash compensation expense related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 0.5 years.

Stock Options

Stock options outstanding and exercisable as of December 31, 2008, were as follows:

	Number of Shares	Weighted Average Exercise Price
As of March 31, 2008	**1,170,583**	**$ 5.33**
Granted	-	-
Exercised	-	-
Expired	-	-
As of December 31, 2008	**1,170,583**	**$ 5.33**

Additional information regarding outstanding options as of December 31, 2008, was as follows:

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

Warrants

On November 26, 2003, the Company granted warrants to placement agents in connection with funds raised on the Company's behalf. These warrants granted the placement agents the right to purchase up to 142,857 shares of the Company's common stock at an exercise price of $3.50 per share. These warrants have been offset to the proceeds as a cost of capital. On July 28, 2008, 14,286 of these warrants were exercised. The remaining warrants for 38,094 shares expired at the end of November 2008.

Warrants outstanding and exercisable as of December 31, 2008 were as follows:

	Number of Shares	Weighted Average Exercise Price
As of March 31, 2008	**52,380**	**$ 3.50**
Granted	-	-
Exercised	14,286	3.50
Expired	38,094	3.50
As of December 31, 2008	**-**	**$ -**

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.

The Company sold its crude oil to the domestic market during November and December 2008, since netbacks on domestic market sales were more attractive than on export sales.

	Three months ended December 31,		Nine months ended December 31,	
	2008	**2007**	**2008**	**2007**
Export sales	$ 2,490,840	$ 15,787,974	$ 59,406,817	$ 39,736,420
Domestic sales	2,392,950	1,044,638	3,062,357	1,441,547
	$4,883,790	$ 16,832,612	$ 62,469,174	$ 41,177,967

NOTE 13 – EXPORT DUTY

On April 18, 2008 the government of the Republic of Kazakhstan introduced an export duty on several products (including crude oil). The Company became subject to the duty beginning in June 2008. The export duty for nine month ended December 31, 2008 amounted to $7,912,459, which is being reported as a part of operating expenses. 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.

NOTE 14 - CONSULTING EXPENSES

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

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

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

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

NOTE 15 – DISGORGEMENT FUNDS RECEIVED

In June 2008 the Company received a letter from a shareholder of the Company stating that the shareholder was returning realized profits from their trades of shares of the Company's common stock during the 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 16 – INCOME TAXES

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

According to the Exploration Contract in the Republic of Kazakhstan, for income tax purposes the Company can capitalize the exploration and development costs and deduct all revenues received during the exploration stage to calculate taxable income. 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.

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

No provision for income taxes has been recorded by the Company for the nine months ended December 31, 2008 and 2007, respectively.

NOTE 17 - EARNINGS PER SHARE INFORMATION

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

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Net (loss) / income	$ (8,292,982)	$ 9,856,062	$ 14,858,367	$ 22,746,163
Basic weighted-average common shares outstanding	47,378,420	44,690,657	46,607,184	44,690,657
Effect of dilutive securities				
Warrants	-	56,532	7,881	56,531
Stock options	-	209,414	6,832	209,412
Dilutive weighted average common shares outstanding	47,378,420	44,956,603	46,621,897	44,956,600
Basic (loss) / income per common share	$ (0.18)	$ 0.22	$ 0.32	$ 0.51
Dilutive (loss) / income per common share	$ (0.18)	$ 0.22	$ 0.32	$ 0.51

The dilutive weighted average common shares outstanding for the three and nine months ended December 31, 2008 does not include the effect of the potential conversion of the Notes because the average market share price for three and nine months ended December 31, 2008 was lower than potential conversion price of the convertible notes for this period.

The dilutive weighted average common shares outstanding for the three and nine months ended December 31, 2008 does not include the effect of potential conversion of certain warrants and stock options as their effects are anti-dilutive.

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

NOTE 18 - RELATED PARTY TRANSACTIONS

The Company leases ground fuel tanks and other oil fuel storage facilities and warehouses from Term Oil LLC. The lease expenses for the three months ended December 31, 2008 and 2007, totaled to $50,516 and $61,109, respectively. Also the Company had accounts payable to Term Oil LLC in the amount of $174,945 and $53,624 as of December 31, 2008 and March 31, 2008, respectively. One of our significant shareholders and the director of Emir Oil LLP is the owner of Term Oil LLC.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

Consulting Agreement

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

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 December 31, 2008 the Company had spent a total of $254.4 million in exploration activities.

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

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

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

Litigation

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

In April 2005, Sokol Holdings, Inc., also filed a complaint in United States District Court, Southern District of New York alleging that BMB Munai, Inc., Boris Cherdabayev, and former BMB directors Alexandre Agaian, Bakhytbek Baiseitov, Mirgali Kunayev and Georges Benarroch wrongfully induced Toleush Tolmakov to breach a contract under which Mr. Tolmakov had agreed to sell to Sokol 70% of his 90% interest in Emir Oil LLP.

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

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 quarter, 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. No trial date has been established.

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 20 - FINANCIAL INSTRUMENTS

As of December 31, 2008 and March 31, 2008 cash and cash equivalents included deposits in Kazakhstan banks in the amount $688,920 and $2,211,352, respectively, and deposits in U.S. banks in the amount of $6,784,740 and $15,027,485, respectively. Kazakhstan banks are not covered by FDIC insurance, nor does the Republic of Kazakhstan have an insurance program similar to FDIC. Therefore, the full amount of our deposits in Kazakhstan banks was uninsured as of December 31, 2008 and March 31, 2008. The Company's deposits in U.S. banks are also in non-

FDIC insured accounts which means they too are not insured to the $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 December 31, 2008 and March 31, 2008 the Company made advance payments to Kazakhstan companies and government bodies in the amount $12,101,945 and $21,266,329, respectively. As of December 31, 2008 and March 31, 2008 restricted cash reflected in the long-term assets consisted of $737,402 and $622,697, respectively, deposited in a Kazakhstan bank and restricted to meet possible environmental obligations according to the regulations of Kazakhstan. Furthermore, the primary asset of the Company is Emir Oil LLP; an entity formed under the laws of the Republic of Kazakhstan.

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

The following discussion is intended to assist you in understanding our results of operations and our present financial condition. Our Consolidated Financial Statements and the accompanying notes included in this Form 10-Q contain additional information that should be referred to when reviewing this material and this document should be read in conjunction with the Form 10-K of the Company for the year ended March 31, 2008.

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

Cautionary Note Regarding Forward-Looking Statements

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

- substantial or extended decline in oil prices;
- inaccurate reserve estimates;
- inability to enter a production contract with the Republic of Kazakhstan;
- drilled prospects may not yield oil or natural gas in commercial quantities;
- substantial losses or liability claims as a result of operations;
- insufficient funds to meet our liquidity needs 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 is an independent oil and natural gas company engaged in the exploration, development, acquisition and production of crude oil and natural gas properties in the Republic of Kazakhstan (sometimes also referred to herein as the “ROK” or “Kazakhstan”). We hold a contract that allows us to explore and develop approximately 850 square kilometers in western Kazakhstan. Our contract grants us the right to explore and develop the ADE Block, which includes the Aksaz, Dolinnoe and Emir oil and gas fields, the Southeast Block, which includes the Kariman oil and gas field and the Borly and Yessen structures, and the recently granted territory referred to herein as the Northwest Block. The ADE Block, the Southeast Block and the Northwest Block are collectively referred to herein as “our properties.”

Exploration Stage Activities

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

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

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

Minimum Work Program Requirements

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

The contract we hold follows the above format. The contract sets the minimum dollar amount we must expend during each year of our work program. Under our exploration license our work program year ends on July 9 each year until July 9, 2009. Thereafter our work program year end changes to January 9 of each year. Therefore our work program year does not coincide with our fiscal year. As a result of these timing differences, the amounts reflected in the table below as “Actually Made” may differ from amounts disclosed elsewhere in our Management’s Discussion and Analysis or Consolidated Financial Statements, which present figures based on our fiscal year rather than our work program year.

Amount of Expenditure	Mandated by Contract	Actually Made
Prior to July 2007	$40,200,000	$104,750,000
July 2007 to July 2008	$8,480,000	$115,040,000
July 2008 to July 2009	$1,845,000	$ 37,630,000*
July 2009 to January 2010	$8,565,000	$ -
January 2010 to January 2011	$21,520,000	$ -
January 2011 to January 2012	$27,300,000	$ -
January 2012 to January 2013	$14,880,000	$ -
Total	$122,790,000	$257,420,000

* Investment as of December 31, 2008.

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

Under the rules of the MEMR there is an option for expenditures above the minimum requirements in one period to be carried over to meet minimum obligations in future periods. As the above chart shows we have significantly exceeded the minimum expenditure requirement in each period of the contract and have more than doubled the total minimum capital expenditure requirement during the exploration stage.

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

In Kazakhstan, typically, one exploratory well and two appraisal wells are sufficient to support a claim of commercially producible reserves in a particular field, although in some cases, commercial reserves have been demonstrated with fewer wells. The total number of wells the MEMR requires during exploration stage is generally determined by the number of fields or structures identified by the seismic studies done on a territory. 3D seismic studies completed on the ADE Block and the Southeast Block, have identified six potential fields or structures. We plan to perform 3D seismic studies on the Northwest Block to identify potential structures in that Block.

To date, we have drilled a total of 24 wells; - five wells in the Aksaz field, six wells in the Dolinnoe field, three wells in the Emir field and ten wells in the Kariman field.

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

Establishing the Existence of Commercially Producible Reserves

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

Preparation, Submission and Approval of a Development Plan

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

Taxes, Royalties and Duties

During exploration stage, we have the right to sell the oil and natural gas we recover during test production. As noted above, under our original contract, we had been granted tax stability and were not required to pay export taxes. We were, however, required to pay a royalty at rates tied to annual crude oil production. In connection with the extension of the term of our exploration contract and the adoption of a new tax code in the Republic of Kazakhstan, we were required to renegotiate the taxes and royalties we pay. Consistent with the terms of our agreement with the government at the time the extension of our contract was granted, on January 16, 2009 we entered into Addendum No. 7 to our contract which provides that we agree to be subject to the provisions of the new tax effective from January 1, 2009.

The description of Addendum No. 7 in this report is only a summary of that document and is qualified in its entirety by reference to the terms of Addendum No. 7, a copy of which is attached as an exhibit to this report.

As noted above, in June 2008 we became subject to a crude oil export duty on all oil sold outside the Kazakhstan domestic market. In December 2008 the government of the Republic of Kazakhstan issued a resolution that cancelled the export duty effective January 26, 2009.

With the amendment to our contract, we became subject to two new taxes enacted under the of the new tax code, effective January 1, 2009:

- *Mineral Extraction Tax.* This tax replaced the royalty we had previously been paying. The rate of this tax depends on annual production output. Currently we are subject to a 5% mineral extraction tax rate on production sold to export market, and a 2.5% tax rate on production sold to domestic market.
- *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.

We are currently evaluating the implications of the new tax code and how the changes may impact our results of operations. Under the new code, the amount we pay will be directly impacted by the price per barrel of oil. Based on our initial assessment, we believe at current world oil prices our tax obligations will be lower under the new tax code than under the export duty.

Drilling Operations

During the quarter ended December 31, 2008 we engaged in drilling operations on 4 wells: Aksaz-2 and 6, Kariman-11 and Dolinnoe-7.

We completed drilling of Dolinnoe-7 on September 11, 2008 to a depth of 3,756 meters; drilling of Aksaz-2 on September 25, 2008 to a depth of 4,292 meters; completed drilling of Kariman-11 on November 2, 2008 to a depth of 3,580 meters and Aksaz-6 on December 28, 2008, to a total depth of 4,330 meters. Upon completion of drilling, we have commenced extensive testing activities on each well, including necessary geological studies and tests. These activities are ongoing.

Well Performance and Production

The following table sets forth the number of oil and natural gas wells in which we owned an interest as of December 31, 2008.

	Company-operated		Non-operated		Total	
	Gross	Net	Gross	Net	Gross	Net
Oil	24	24	-	-	24	24
Natural Gas	-	-	-	-	-	-
Total	24	24	-	-	24	24

As of the fiscal quarter ended December 31, 2008, each of the 24 wells identified above was in test production, testing or under/awaiting workover.

According to the laws of the Republic of Kazakhstan, we are required to test every prospective target on our properties separately, this includes the completion of well surveys on different modes with various choke sizes on each horizon.

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

Following is a brief description of the current production status of each of our 24 wells.

Well	Single Interval Production Rate for the Four Months ended January 31, 2008	Diameter Choke Size
Aksaz -1	44-57 bpd	4 mm
Aksaz -2	25-126 bpd	5 mm
Aksaz-3	302-346 bpd	4 mm
Aksaz -4	50 - 57 bpd	4 mm
Aksaz -6	31- 63 bpd	5 mm
Dolinnoe -1	50- 151 bpd	6 mm
Dolinnoe -2	13 - 245 bpd	2 mm
Dolinnoe -3	6-138 bpd	6 mm
Dolinnoe -5	0- 110 bpd(1)	5 mm
Dolinnoe -6	13-57 bpd	12 mm
Dolinnoe -7	113- 396 bpd	4 mm
Emir -1	0- 31 bpd	-
Emir - 2	0- 63 bpd(2)	6 mm
Emir -6	0-94 bpd	-
Kariman -1	44-111 bpd(3)	-
Kariman -2	302- 704 bpd	5 mm
Kariman -3	0 -82 bpd (4)	-
Kariman -4	0- 352 bpd (5)	6 mm
Kariman -5	9- 38 bpd(6)	12 mm
Kariman -6	371- 629 bpd	7 mm
Kariman -7	0-554 bpd(5)	6 mm
Kariman -8	390 - 616 bpd	7 mm
Kariman -10	25-377 bpd(7)	10 mm
Kariman-11	113 - 252 bpd	7 mm

(1) A first target was tested on March 27, 2008. The first week's production was 110 bpd. In April it dropped to 63 bpd. For a couple of days the well was shut-in for a pressure build-up. After that the production dropped to 26 bpd. We carried out an acid injection and hydro-impulsive cleaning and aeration, however, it hasn't yielded significant results. We conducted bottom-hole zone cleaning to stimulate oil flow in August 2008. At the present moment, the well is producing sporadically. We intend to complete a comprehensive study of oil flow stimulation activities, including installation of various pumps.
(2) This well was completed during the quarter ended March 31, 2008. At the present moment, the well produces sporadically. We have lowered a down-hole pump but such activities yielded no significant results. We plan to continue sporadic production from this well without spending any significant additional funds for workover activities in the near future.
(3) We have installed a downhole pump at the Kariman-1 well which resulted in sporadic production flow during the quarter ending December 31, 2008. No further activities are planned for this well.
(4) We are in the process of researching various available options for bringing back production from this well.
(5) Both, Kariman-4 and Kariman-7 wells, have produced sporadically due to the pressure drop and paraffin buildup resulting in an inability to produce crude oil using primary depletion methods at a sustainable rate. Well testing conducted during the quarter ending December 31, 2008, indicated high breaking-off level of crude in the wellbore, which led to our decision to install centrifugal submersible pumps at both of the wells during the quarter ending March 31, 2009, in order to keep up sustainable production from these wells.
(6) We expect to install a downhole pump at the Kariman-5 well when a workover rig becomes available.
(7) During the quarter ending December 31, 2008, we conducted extensive studying of the lower interval that was perforated. We have perforated the next upper interval, however production from this interval has not yielded any significant increase in production.

During the quarter ending December 31, 2008, we revised our planned capital expenditure program for the remainder of the current and the upcoming fiscal year to significantly reduce our planned capital expenditures. This decision is based on several factors.

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

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

Upon careful evaluation of available options, we have decided to suspend our drilling programs until the global financial situation and crude oil prices stabilize at levels that we deem will make further drilling efforts economically efficient. We have managed to negotiate the suspension of drilling contracts with drilling contractors, Great Wall and Oil and Gas Exploration Crakow, without incurring penalties and fines. By the end of our third fiscal quarter, we had terminated all drilling activities.

During the quarter ending December 31, 2008, we experienced a significant drop in our average production due to several factors. We have experienced pressure drops that are significantly higher than previously expected which adversely affected production rates from several wells. We believe this dramatic decline is partially attributable to the length of time certain Kariman wells have been producing without significant workover activities, Kariman-2 for instance has been producing for over 2 years now, and to paraffin build-up on most wells due to the surprisingly harsh weather in Aktau this winter.

Another reason for the decrease in production is a lack of oil storage capacity. Given world market prices during the quarter, many oil producers in Kazakhstan were unwilling to export crude oil to international markets due to the negative netbacks to be realized after application of the excessively high export duty imposed by the government of Kazakhstan while world market prices plummeted starting in August 2008. Such circumstances forced us, similar to most other independent producers in Kazakhstan to supply 100% of our crude oil to domestic markets starting in late October 2008. This significant increase in the supply of crude oil to the domestic market in Kazakhstan led to severe logistical hiccups as there is only one refinery, the Atyrau refinery, that services western Kazakhstan. The refining capabilities of the Atyrau refinery are limited, this was exacerbated by the railroad spurs/network that is not suited for such increase in crude oil supply. As a result several times during the quarter ending December 31, 2008, we were unable to ship crude oil to the domestic markets for several days in a row. This led to the crude oil inventories at the oil storage facility we lease to exceed storage capacity. As a result, we had to partially or completely (through choke scale down) shutdown several wells. Due to the pressure drop and paraffin build-up during such suspension of production, we were unable to return to the previous production rates at several wells. In certain cases, such as Kariman-4 and Kariman-7, production has ceased altogether and has not been restored to date.

We have developed and plan to carry out a production restoration program based on installation and running of submersible centrifugal and bottom-hole pumps at non-producing or low-producing wells. We expect to complete such activities at the Kariman-4 and -7 wells during the quarter ending March 31, 2009.

We have halted drilling activities and plan to significantly scale down other capital expenditures, including workover activities and infrastructure development, until crude oil prices rebound and/or the global markets revive, which will allow us to generate sufficient cash flows and/or raise additional capital. However, we plan to engage in careful evaluation and carrying out activities with the purpose of oil production stimulation from existing wells. In essence, we plan to work with each and every well in our wellstock with the purpose of restoring and increasing production from such wells.

If we continue to experience greater than expected declines in production, or as prices fall to levels that could reduce the amount of crude oil we can produce economically, we may have to make downward adjustments to our estimated proved reserves. If this occurs, we could incur a “ceiling limitation write-down” under applicable accounting rules. Under these rules, if the net capitalized cost of natural gas and crude oil properties exceed a ceiling limit, we must charge the amount of the excess to earnings. This charge does not impact cash flow from operating activities, but it would reduce our stockholder’s equity and earnings. The risk that we will be required to write-down the carrying value of natural gas and crude oil properties increases when natural gas and crude oil prices are low or when our production rates are lower than anticipated. In addition, write-downs would occur if we were to experience substantial downward adjustments to our estimated proved reserves. A write-down recorded in one period may not be reversed in a subsequent period even though crude oil prices or production may have increased the ceiling applicable to a subsequent period.

Results of Operations

Three months ended December 31, 2008, compared to the three months ended December 31, 2007.

Revenue and Production

The following table summarizes production volumes, average sales prices and operating revenue for our oil and natural gas operations for the three months ended December 31, 2008 and the three months ended December 31, 2007.

	For the three months ended December 31, 2008	For the three months ended December 31, 2007	Three months ended December 31, 2008 to the three months ended December 31, 2007 $ Increase (Decrease)	% Increase (Decrease)
Production volumes:				
Natural gas (Mcf)	-	-	-	-
Natural gas liquids (Bbls)	-	-	-	-
Oil and condensate (Bbls)	226,654	257,171	(30,517)	(12%)
Barrels of Oil equivalent (BOE)	226,654	257,171	(30,517)	(12%)
Sales volumes:				
Natural gas (Mcf)	-	-	-	-
Natural gas liquids (Bbls)	-	-	-	-
Oil and condensate (Bbls)	209,758	252,857	(43,099)	(17%)
Barrels of Oil equivalent (BOE)	209,758	252,857	(43,099)	(17%)
Average Sales Price (1)				
Natural gas ($ per Mcf)	-	-	-	-
Natural gas liquids ($ per Bbl)	-	-	-	-
Oil and condensate ($ per Bbl)	$ 23.28	$ 66.57	$ (43.29)	(65%)
Barrels of Oil equivalent ($ per BOE)	$ 23.28	$ 66.57	$ (43.29)	(65%)
Operating Revenue:				
Natural gas	-	-	-	-
Natural gas liquids	-	-	-	-
Oil and condensate	$ 4,883,790	$ 16,832,612	$ (11,948,822)	(71%)
Gain on hedging and derivatives (2)	-	-	-	-

(1) At times, we may produce more barrels than we sell in a given period. The average sales price is calculated based on the average sales price per barrel sold, not per barrel produced.
(2) We did not engage in hedging transactions, including derivatives during the three months ended December 31, 2008, or the three months ended December 31, 2007.

Revenues. We generate revenue under our exploration contract from the sale of oil recovered during test production. During the three months ended December 31, 2008 our oil production decreased 12% compared to the three months ended December 31, 2007.

During the three months ended December 31, 2008 we realized revenue from oil sales of $4,833,790 compared to $16,832,612 during the three months ended December 31, 2007. The significant contributing factor to the 71% decrease in revenue was a 65% decrease in the price per barrel we received for oil sales. We sold crude oil to the domestic market during November and December 2008, since netbacks on domestic market sales were more attractive than on export sales. During the three months ended December 31, 2008 and 2007 we exported 39% and 82% 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 51% and 94% of total revenue, respectively, during the three months ended December 31, 2008 and 2007. Another factor contributing to the decrease in revenues was a 17% decrease in sales volume during the three months ended December 31, 2008 compared to the three months ended December 31, 2007. We currently anticipate revenues will be flat in upcoming quarters for several reasons.

As discussed above, our revenue is sensitive to changes in the price we receive for our oil. Oil prices fluctuate in response to many factors that are outside our control. Imbalances in the supply and demand for oil can have a dramatic effect on the price we receive for our production. In the past quarter world oil prices have dropped materially. This reduction in price has significantly reduced revenue from oil sales. Should world oil prices remain lower, we will continue to realize lower revenue.

Historically, sales to the domestic market in Kazakhstan would have resulted in a significant reduction in revenue and income from operations because the domestic market price has been markedly lower than world oil prices. As the gap between world oil prices and domestic prices shrank, we actually found it more financially attractive to sell our oil to the domestic market.

In December 2008 the government of the Republic of Kazakhstan issued a resolution cancelling the export duty effective January 26, 2009 for companies operating under the new tax code. Beginning January 1, 2009 a new tax code went into effect. We are currently trying to determining how these changes will impact our results of operations. While we believe the repeal of the export duty will allow us to sell oil to international markets and realize higher revenues, we also believe that this increase in price will be offset by the production decreases given the decline rates we are currently experiencing in our wells coupled with the suspension of any new drilling activity until financial conditions improve.

Costs and Operating Expenses

The following table presents details of our costs and expenses for the three months ended December 31, 2008 and 2007:

	For the three months ended December 31, 2008	For the three months ended December 31, 2007
Expenses:		
Export duty	$ 2,172,559	$ -
Oil and gas operating(1)	1,449,981	1,538,143
General and administrative	6,764,698	3,988,250
Depletion(2)	2,686,439	1,716,899
Accretion expenses	121,138	70,235
Amortization and depreciation	71,870	62,850
Consulting expenses	-	-
Total	**$ 13,266,685**	**$7,376,377**
Expenses ($ per BOE):		
Oil and gas operating(1)	6.91	6.08
Depletion (2)	12.81	6.79

(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 export duty for three month ended December 31, 2008 amounted to $2,172,559. The formula for determining the amount of the crude oil export duty is based on a sliding scale that is tied to the world market price for oil. The amount of the export duty can change with fluctuations in world oil prices. Fluctuations in the export duty, however, lag behind fluctuations in world oil prices by about 90 days. In December 2008 the government of the Republic of Kazakhstan repealed the export duty effective January 26, 2009. However, we are now subject to the new tax code that went into effect on January 1, 2009. We are currently investigating how the cancellation of the export duty and the new tax code may effect our results of operations.

Oil and Gas Operating Expenses. During the three months ended December 31, 2008 we incurred $1,449,981 in oil and gas operating expenses compared to $1,538,143 during the three months ended December 31, 2007. This decrease is due to decreased production volumes.

We calculate oil and gas operating expense per BOE based on the volume of oil actually sold rather than production volume because not all volume produced during the period is sold during the period. The related production costs are expensed only for the units sold, not produced.

Oil and gas operating expenses decreased 6% during the three months ended December 31, 2008 compared to the three months ended December 31, 2007. Expense per BOE, however, increased 14% during the three months ended December 31, 2008. Expense per BOE increased as a result of decreased crude oil sales. During the three months ended December 31, 2007 we sold 252,857 barrels of oil, during the three months ended December 31, 2008 we sold 209,758 barrels of oil. As expense per BOE is a function of total expense divided by the number of barrels of oil sold, the 17% decrease in sales volume more than offset the 6% decrease in expenses resulting in a 14%, or $0.83, increase in oil and gas operating expense per BOE.

General and Administrative Expenses. General and administrative expenses during the three months ended December 31, 2008 were $6,764,698 compared to $3,988,250 during the three months ended December 31, 2007. This represents a 70% increase in general and administrative expenses. This increase in general and administrative expenses was the result of several factors such as increased payroll and related costs, rent expense, taxes and professional services.

During the three months ended December 31, 2008 we recognized non-cash compensation expense of $2,421,726 resulting from restricted stock grants made previously to employees. By comparison, during the three months ended December 31, 2007 we recognized non-cash compensation expense in the amount of $576,957 for restricted stock grants issued to employees and outside consultants.

The increase in general and administrative expense during the three months ended December 31, 2008 compared to the three months ended December 31, 2007 was primarily the result of:

- the change in non-cash compensation expense described in the previous paragraph;
- a 91% increase in professional services resulting from legal fees incurred in our ongoing litigation; and
- a 50% increase in rent expense from renting special equipment, apartments and additional vehicles.

Depletion. Depletion expense for the three months ended December 31, 2008 increased by $969,540 compared to the three months ended December 31, 2007. The major reason for this increase in depletion expense was a 127% increase in total depletable properties during in the three months ended December 31, 2008 compared to the three months ended December 31, 2007 because we drilled additional wells, continued workover on existing wells and developed additional infrastructure during the three months ended December 31, 2008.

Amortization and Depreciation. Amortization and depreciation expense for the three months ended December 31, 2008 increased 14% compared to the three months ended December 31, 2007. The increase resulted from purchases of fixed assets during the quarter.

Loss/Income from Operations. During the three months ended December 31, 2008 we realized loss from operations of $8,382,895 compared to an income from operations of $9,456,235 during the three months ended December 31, 2007. This loss from operations during the three months ended December 31, 2008 is the result of the 71% decrease in revenue, which decrease was exacerbated by a 80% increase in total expenses.

Other Income. During the three months ended December 31, 2008 we realized total other income of $89,913 compared to $399,827 during the three months ended December 31, 2007. This decrease is largely attributable to a 86% decrease in interest income.

Net Loss/Income. For all of the foregoing reasons, during the three months ended December 31, 2008 we realized net loss of $8,292,982 or $0.18 per share compared to a net income of $9,856,062 or $0.22 per share for the three months ended December 31, 2007.

Nine months ended December 31, 2008, compared to the nine months ended December 31, 2007.

Revenue and Production

The following table summarizes production volumes, average sales prices and operating revenue for our oil and natural gas operations for the nine months ended December 31, 2008 and the nine months ended December 31, 2007.

	For the nine months ended December 31, 2008	For the nine months ended December 31, 2007	Nine months ended December 31, 2008 to the nine months ended December 31, 2007	
			$ Increase (Decrease)	% Increase (Decrease)
Production volumes:				
Natural gas (Mcf)	-	-	-	-
Natural gas liquids (Bbls)	-	-	-	-
Oil and condensate (Bbls)	866,021	672,297	193,724	29%
Barrels of Oil equivalent (BOE)	866,021	672,297	193,724	29%
Sales volumes:				
Natural gas (Mcf)	-	-	-	-
Natural gas liquids (Bbls)	-	-	-	-
Oil and condensate (Bbls)	847,036	665,553	181,483	27%
Barrels of Oil equivalent (BOE)	847,036	665,553	181,483	27%
Average Sales Price (1)				
Natural gas ($ per Mcf)	-	-	-	-
Natural gas liquids ($ per Bbl)	-	-	-	-
Oil and condensate ($ per Bbl)	$ 73.75	$ 61.87	$ 11.88	19%
Barrels of Oil equivalent ($ per BOE)	$ 73.75	$ 61.87	$ 11.88	19%
Operating Revenue:				
Natural gas	-	-	-	-
Natural gas liquids	-	-	-	-
Oil and condensate	$ 62,469,174	$ 41,177,967	$ 21,291,207	52%
Gain on hedging and derivatives (2)	-	-	-	-

(1) At times, we may produce more barrels than we sell in a given period. The average sales price is calculated based on the average sales price per barrel sold, not per barrel produced.
(2) We did not engage in hedging transactions, including derivatives during the nine months ended December 31, 2008, or the nine months ended December 31, 2007.

Revenues. We generate revenue under our contract from the sale of oil recovered during test production. During the nine months ended December 31, 2008 our oil production increased 27% compared to the nine months ended December 31, 2007. This increase in production is primarily attributable to the fact that we had twenty-four wells in testing or test production during all or some portion of the nine months ended December 31, 2008 compared to fourteen wells during all or some portion of the nine month period ended December 31, 2007.

During the nine months ended December 31, 2008 we realized revenue from oil sales of $62,469,174 compared to $41,177,967 during the nine months ended December 31, 2007. The largest contributing factor to the 52% increase in revenue was a 27% increase in sales volume. Another factor contributing to the increase in revenues was a 19% increase in the price per barrel we received for oil sales during the nine months ended December 31, 2008 compared to the nine months ended December 31, 2007. During the nine months ended December 31, 2008 and 2007 we exported 81% and 91%, respectively, of our oil to the world markets and realized the world market price for those sales.

Costs and Operating Expenses

The following table presents details of our expenses for the nine months ended December 31, 2008 and 2007:

	For the nine months ended December 31, 2008	For the nine months ended December 31, 2007
Expenses:		
Export duty	$ 7,912,459	$ -
Oil and gas operating(1)	6,065,686	3,768,513
General and administrative	17,350,218	10,954,205
Depletion(2)	9,105,564	4,223,854
Accretion expenses	325,494	162,594
Amortization and depreciation	218,610	175,069
Consulting expenses	8,662,500	-
Total	**$ 49,640,531**	**$ 19,284,235**
Expenses ($ per BOE):		
Oil and gas operating(1)	7.16	5.66
Depletion (2)	10.75	6.35

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

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

Export Duty. The export duty for nine month ended December 31, 2008 was $7,912,459. As noted above, we became subject to the export duty in June 2008. Therefore, we paid no export duty during the nine months ended December 31, 2007.

Oil and Gas Operating Expenses. During the nine months ended December 31, 2008 we incurred $6,065,686 in oil and gas operating expenses compared to $3,768,513 during the nine months ended December 31, 2007. This significant increase is primarily the result of increased production volumes and other factors, including the increased royalty, salary and production expenses.

During the nine months ended December 31, 2008 royalty paid to the government increased by $705,395 or 68% compared to the nine months ended December 31, 2007. The increase in royalty corresponds with the increase in production. While royalty expenses increased significantly, as a percentage of total revenue, royalty expense remained nearly unchanged.

We calculate oil and gas operating expense per BOE based on the volume of oil actually sold rather than production volume because not all volume produced during the period is sold during the period. The related production costs are expensed only for the units sold, not produced.

Oil and gas operating expenses increased 61% during the nine months ended December 31, 2008 compared to the nine months ended December 31, 2007. Expense per BOE increased 26% during the nine months ended December 31, 2008. During the nine months ended December 31, 2007 we sold 665,553 barrels of oil, during the nine months ended December 31, 2008 we sold 847,036 barrels of oil. As expense per BOE is a function of total expense divided by the number of barrels of oil sold, the 27% increase in barrels of oil sold did not offset the 61% increase in expenses resulting in a 26%, or $1.50, increase in oil and gas operating expense per BOE.

During the nine months ended December 31, 2008 payroll and related payments to production personnel increased $108,071 or 22% compared to the nine months ended December 31, 2007. As a result of increased production volume, we retained more production personnel during the nine months ended December 31, 2008 than during the nine months ended December 31, 2007.

Transportation expenses increased $1,483,707 or 66% as a result of two factors. First, transportation expense increased because of the increased volume of oil we produced and transported. Second, transportation expense increased because the Kariman wells are located farther from our oil base than our other existing wells and Kariman wells are our highest producing wells.

General and Administrative Expenses. General and administrative expenses during the nine months ended December 31, 2008 were $17,350,218 compared to $10,954,205 during the nine months ended December 31, 2007. This represents a 58% increase in general and administrative expenses. This increase was the result of several factors such as increased payroll and related costs, rent expense, taxes and professional services.

We recognized non-cash compensation expense of $5,068,785 during the nine months ended December 31, 2008 resulting from restricted stock grants made to employees and outside consultants. By comparison, during the nine months ended December 31, 2007 we recognized the non-cash compensation expense in the amount of $1,730,871 for restricted stock grants issued to employees and outside consultants.

The increase in general and administrative expense during the nine months ended December 31, 2008 compared to the nine months ended December 31, 2007 was primarily the result of:

- the change in non-cash compensation expense described in the previous paragraph;
- a 19% increase in payroll and related costs as we hired additional administrative personnel to fulfill business needs, increased employee pay rates for existing employees;
- a 34% increase in professional services resulting from legal fees incurred in our ongoing litigation;
- a 57% increase in rent expense from renting special equipment, apartments and additional vehicles; and
- a 45% increase in taxes resulting from environmental payments for flaring of increased volumes of unused natural gas resulting from increased production. The amount of environmental payments totaled $794,150 and $559,274 during the nine months ended December 31, 2008 and 2007, respectively.

Depletion. Depletion expense for the nine months ended December 31, 2008 increased by $4,881,710 or 116% compared to depletion expenses for the nine months ended December 31, 2007. The major reason for this increase in depletion expense was the 27% increase in sales volume during the nine months ended December 31, 2008 compared to same period of last year. The increase in depletion expense is also attributable to the fact that we drilled additional wells, continued workover on existing wells and developed additional infrastructure during current fiscal quarter.

Amortization and Depreciation. Amortization and depreciation expense for the nine months ended December 31, 2008 increased 25% compared to the nine months ended December 31, 2007. The increase resulted from purchases of fixed assets during the year.

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

On September 16, 2008 this consulting agreement was revised and the parties agreed to decrease the 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 December 31, 2008.

Income from Operations. During the nine months ended December 31, 2008 we realized income from operations of $12,828,643 compared to an income from operations of $21,893,732 during the nine months ended December 31, 2007. This decrease in income from operations during the nine months ended December 31, 2008 is the result of the 157% increase in total expenses, which was only partially offset by a 52% increase in revenue.

Other Income. During the nine months ended December 31, 2008 we realized total other income of $2,029,724 compared to $852,431 during the nine months ended December 31, 2007. This increase is largely attributable to $1,650,293 we received from a shareholder of the Company as disgorgement of profits earned in violation of the short-swing profit rules of Section 16(b) of the Securities Exchange Act of 1934.

Net Income. For all of the foregoing reasons, during the nine months ended December 31, 2008 we realized net income of $14,858,367 or $0.32 per share compared to a net income of $22,746,163 or $0.51 per share for the nine months ended December 31, 2007.

Liquidity and Capital Resources

For the period from inception on May 6, 2003 through December 31, 2008, we have incurred capital expenditures of $242,922,070 for exploration, development and acquisition activities. Funding for our activities has historically been provided by funds raised through the sale of our common stock and debt securities. From inception to December 31, 2008 we have raised approximately $94.6 million through the sale of our common stock. Additionally during the quarter ended September 30, 2007 we completed the placement of $60 million in principal amount of 5.0% convertible senior notes due in 2012. The net proceeds from the Note issuance of approximately $56.2 million has been 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 and see *Note 9* to the *Notes to the Unaudited Consolidated Financial Statements, December 31, 2008.*

Recent problems in the credit markets, steep declines in worldwide oil prices and volatility and downward trends in the stock market evidence a weakening United States and global economy. In addition, these conditions 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.

We negotiated the terms of a revolving credit facility, but we have not executed definitive agreements. The unsecured credit facility will operate on a model that is based upon, among other things, our expected production and revenue. With the significant decline in world oil prices and our estimated decline in production, our expected revenue will not be sufficient under the terms negotiated to allow us to draw down substantial funds at this time.

At December 31, 2008, our current liabilities exceeded current assets by $22,920,342. This has created a severe liquidity problem for the Company in the near term. This increase in current liabilities over current assets arose from the steep decline in world oil prices, 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 all drilling of new wells and we are working with creditors to establish payment schedules that will allow us to reduce our current liabilities and continue Company operations. We have no assurance that we will be successful in negotiating favorable terms with our creditors.

Beginning from February 2009 we have again started to sell oil to export markets. The netback we receive from export sales will be higher than domestic sales which should help to improve our liquidity situation.

Cash Flows

During the nine months ended December 31, 2008 cash was primarily used to fund exploration expenditures. See below for additional discussion and analysis of cash flow.

	Nine months ended December 31, 2008	Nine months ended December 31, 2007
Net cash provided by operating activities	$ 52,260,731	$ 30,920,176
Net cash used in investing activities	$ (62,075,909)	$ (67,116,950)
Net cash provided by financing activities	$ 50,001	$ 56,210,763
NET CHANGE IN CASH AND CASH EQUIVALENTS	**$ (9,765,177)**	**$ 20,013,989**

Our principal source of liquidity during the nine months ended December 31, 2008 was cash and cash equivalents. At March 31, 2008 cash and cash equivalents totaled approximately $17.2 million. At December 31, 2008 cash and cash equivalents had decreased to approximately $7.5 million. During the nine months ended December 31, 2008 we spent approximately $64.3 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 December 31, 2008, excluding current liabilities as listed on our consolidated balance sheet:

	Payments Due By Period				
Contractual obligations	**Total**	**Less than 1 year**	**2-3 years**	**4-5 years**	**After 5 years**
Capital Expenditure Commitment(1)	$ 73,710,000	$ 3,570,000	$ 45,965,000	$ 24,175,000	$ -
Due to the Government of the Republic of Kazakhstan(2)	11,744,880	50,000	300,000	11,394,880	-
Liquidation Fund	4,897,510	-	-	4,897,510	-
Convertible Notes with Interest(3)	76,323,785	3,000,000	6,000,000	67,323,785	-
Total	$ 166,676,175	$ 6,620,000	$ 52,265,000	$ 107,791,175	$ -

(1) Under the terms of our subsurface exploration contract we are required to spend a total of $93.2 million in exploration activities on our properties, including a minimum of $3.6 million by July 2009, $10.4 million by January 2010, $21.3 million by January 2011, $27.2 million by January 2012 and $14.9 million by January 2013. As of December 31, 2008, we have spent a total of $242.9 million in exploration activities.

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

(3) 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 December 31, 2008, we had no off-balance sheet financing arrangements.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

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

Commodity Price Risk

Our revenues, profitability and future growth depend substantially on prevailing prices for crude oil. Prices also affect the amount of cash flow available for capital expenditures and our ability to either borrow or raise additional capital. Price affects our ability to produce crude oil economically and to transport and market our production either through export to international markets or within Kazakhstan. Crude oil sales in the international market during our third fiscal quarter 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 nine months ended December 31, 2008, we sold 847,036 barrels of oil and condensate. We realized an average sales price per barrel of $73.75. 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 nine months ended December 31, 2008	$73.75	847,036	$62,469	
Assuming a $5.00 per barrel reduction in average price per barrel	$68.75	847,036	$58,234	$4,235
Assuming a $10.00 per barrel reduction in average price per barrel	$63.75	847,036	$53,999	$8,470

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 December 31, 2008 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 December 31, 2008.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2008 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 19*“Commitments and Contingencies”* to the *Notes to the Consolidated Financial Statements* under Part I – Item 1of this Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our 2008 Annual Report on Form 10-K, 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

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

Exhibit 10.1	Addendum No. 7 to Contract #482 dated June 09, 2000, for hydrocarbon exploration on the Aksaz-Dolinnoe-Emir territory, located in Tyubkaragan region of Mangystau oblast between Ministry of Energy and Mineral Resources of the Republic of Kazakhstan, (Competent body) and Limited Liability Partnership Emir Oil (Contractor), dated January 16, 2009[(1)]
Exhibit 12.1	Computation of Earnings to Fixed Charges[(1)]
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 herewith.

[(1)] Incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed with the Commission on February 6, 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:	October 21, 2009	/s/ Gamal Kulumbetov Gamal Kulumbetov Chief Executive Officer
Date:	October 21, 2009	/s/ Evgeniy Ler Evgeniy Ler Chief Financial Officer

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/A 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: October 21, 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, Evgeniy Ler, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q/A 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: October 21, 2009

/s/ Evgeniy Ler
Evgeniy 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/A for the period ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the *"Report"*), I, Gamal Kulumbetov, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: October 21, 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/A for the period ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the *"Report"*), I, Evgeniy 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: October 21, 2009

/s/ Evgeniy Ler
Evgeniy Ler
Chief Financial Officer