



La Mancha Resources Inc.

Interim Consolidated Financial Statements
As at September 30, 2008
and for the Three and Nine Month Periods Ended
September 30, 2008 and 2007

(unaudited)

The interim consolidated financial statements which are included in this report
have not been subject to a review by the Company's external auditors.



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La Mancha Resources Inc.

Interim Consolidated Balance Sheets

Amounts in thousands of Canadian dollars unless otherwise stated
(unaudited)

	As at September 30	As at December 31
	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	9,809	13,062
Accounts receivable	8,658	7,414
Inventories	32,467	30,313
Income taxes recoverable	58	–
Future income tax asset	566	605
Other current assets	1,254	386
	52,812	51,780
Long-term assets		
Restricted cash	1,005	1,162
Property, plant and equipment	63,472	54,412
Future income tax asset	9,805	9,602
Investments and other assets (Note 5)	9,566	14,623
	83,848	79,799
Total assets	136,660	131,579

The accompanying notes are an integral part of these interim consolidated financial statements.

Signed on behalf of the Board

"Michel Cuilhé"

"Johanne Duchesne"

La Mancha Resources Inc.

Interim Consolidated Balance Sheets (continued)

Amounts in thousands of Canadian dollars unless otherwise stated
(unaudited)

	As at September 30	As at December 31
	2008	2007
LIABILITIES		
Current liabilities		
Bank indebtedness	152	119
Accounts payable and accrued liabilities	11,870	9,784
Income taxes payable	1,886	1,847
Mortgage payable	8,359	7,369
Current portion of capital lease obligations	564	311
Pension and other post-service benefit obligations	450	236
	23,281	19,666
Long-term liabilities		
Future income tax liability	1,859	2,317
Loan payable (Note 6)	9,464	-
Capital lease obligations	658	921
Provisions for other liabilities and charges	2,387	2,407
Pension and other post-service benefit obligations	1,634	1,589
	16,002	7,234
Total Liabilities	39,283	26,900
SHAREHOLDERS' EQUITY		
Common stock	41,379	41,368
Options and warrants	76	330
Contributed surplus	44,139	43,838
Retained earnings	15,123	21,417
Accumulated other comprehensive income (loss)	(3,340)	(2,274)
Total shareholders' equity	97,377	104,679
Total liabilities and shareholders' equity	136,660	131,579

The accompanying notes are an integral part of these interim consolidated financial statements.

La Mancha Resources Inc.

Interim Consolidated Statements of Changes in Shareholders' Equity

Amounts in thousands Canadian dollars unless otherwise stated

(unaudited)

	Common Shares (number of)	Common Shares	Options and Warrants	Contri- buted Surplus	Retained Earnings	Accumulated other compre- hensive income (loss)	Total
Balance on December 31, 2006	141,693,350	41,052	372	43,788	32,223	2,548	119,983
Change in accounting policy – Financial Instruments		–	–	–	–	(226)	(226)
Adjusted balance on January 1, 2007	141,693,350	41,052	372	43,788	32,223	2,322	119,757
Net loss for the nine month period ended September 30, 2007	–				(7,553)		(7,553)
Change in cumulative translation adjustment	–					(6,354)	(6,354)
Change in unrealized gains and losses on available-for-sale investments	–					1,739	1,739
Issuance of shares in connection with mining properties (Note 12)	4,500	3					3
Exercise of options	310,000	313	(16)				297
Forfeiture of options	–		(50)	50			–
Stock-based compensation	–		13				13
Balance on September 30, 2007	142,007,850	41,368	319	43,838	24,670	(2,293)	107,902
Balance on December 31, 2007	142,007,850	41,368	330	43,838	21,417	(2,274)	104,679
Change in accounting policy – inventories (Note 3)					302		302
Adjusted balance on January 1, 2008	142,007,850	41,368	330	43,838	21,719	(2,274)	104,981
Net loss for the nine month period ended September 30, 2008					(6,596)		(6,596)
Change in cumulative translation adjustment						1,165	1,165
Change in unrealized gains and losses on available-for-sale investments						(2,231)	(2,231)
Issuance of shares in connection with mining properties (Note 12)	27,000	11					11
Forfeiture of options and warrants			(301)	301			–
Stock-based compensation			47				47
Balance on September 30, 2008	142,034,850	41,379	76	44,139	15,123	(3,340)	97,377
Total of retained earnings and accumulated other comprehensive income						11,783	

La Mancha Resources Inc.

Interim Consolidated Statements of Changes in Shareholders' Equity (continued)

Amounts in thousands of Canadian dollars unless otherwise stated
(unaudited)

	As at September 30	As at December 31
	2008	2007
Accumulated other comprehensive income (loss)		
• Change in cumulative translation adjustments	(2,137)	(3,302)
• Change in unrealized gains and losses on available-for-sale investments, net of income taxes of \$516 (2007: \$(440)).	(1,203)	1,028
Balance at end of period	(3,340)	(2,274)

The accompanying notes are an integral part of these interim consolidated financial statements.

Interim Consolidated Statement of Comprehensive Income (loss)

Three and Nine Month Periods Ended September 30, 2008 and 2007

Amounts in thousands of Canadian dollars unless otherwise stated
(unaudited)

	Three month period ended September 30		Nine month period ended September 30	
	2008	2007	2008	2007
Net loss	(1,638)	(3,239)	(6,596)	(7,553)
Other comprehensive income (loss)				
• Change in cumulative translation adjustments	(9,598)	(1,607)	1,165	(6,354)
• Change in unrealized gains and losses on available for sale investments, net of income taxes of \$956 (2007: \$(675)).	(415)	427	(2,231)	1,575
• Reclassification of impairment to the income statement, net of income taxes of \$31	-	-	-	(62)
Comprehensive income (loss)	(11,651)	(4,419)	(7,662)	(12,394)

The accompanying notes are an integral part of these interim consolidated financial statements.

La Mancha Resources Inc.

Interim Consolidated Statement of Operations

Three and Nine Month Periods Ended September 30, 2008 and 2007

Amounts in thousands of Canadian dollars except per share amounts

(unaudited)

	Three month period ended September 30		Nine month period Ended September 30	
	2008	2007	2008	2007
Revenue	12,151	9,384	38,704	36,361
Cost of sales	(9,097)	(6,979)	(27,095)	(27,688)
Gross margin	3,054	2,405	11,609	8,673
Operating expenses				
Exploration and evaluation expenses	(1,428)	(1,593)	(5,055)	(5,900)
General and administrative expenses	(1,786)	(1,873)	(6,956)	(7,184)
Other operating expenses	(379)	(454)	(1,183)	(1,787)
Joint venture management fee recoveries	116	86	249	344
Total operating expenses	(3,477)	(3,834)	(12,945)	(14,527)
Mine operating loss	(423)	(1,429)	(1,336)	(5,854)
Other income (expenses)				
Interest income	178	262	401	990
Interest expenses	(222)	(3)	(361)	(54)
Gain (loss) on mortgage payable	90	(452)	(989)	8
Gain (loss) on investments (note 9)	(760)	(1,800)	(2,260)	(1,800)
Foreign exchange gain (loss)	79	(2)	89	(106)
Other income (expense)	142	(4)	–	57
	(493)	(1,999)	(3,120)	(905)
Loss before income tax expense and non-controlling interest	(916)	(3,428)	(4,456)	(6,759)
Income tax expense	(722)	189	(2,140)	(155)
Non-controlling interests	–	–	–	(639)
Net loss for the period	(1,638)	(3,239)	(6,596)	(7,553)
Weighted average number of common shares outstanding (note 7)				
Basic	142,030,448	141,989,312	142,015,465	141,910,469
Diluted	142,030,448	141,989,312	142,015,465	141,910,469
Loss per share (note 7)				
Basic	(0.0115)	(0.0228)	(0.0464)	(0.0532)
Diluted	(0.0115)	(0.0228)	(0.0464)	(0.0532)

The accompanying notes are an integral part of these interim consolidated financial statements

La Mancha Resources Inc.

Interim Consolidated Statement of Cash flows

Three and Nine Month Periods Ended September 30, 2008 and 2007

Amounts in thousands of Canadian dollars unless otherwise stated

(unaudited)

	Three month period ended September 30		Nine month period ended September 30	
	2008	2007	2008	2007
Cash flows from operating activities				
Net loss for the period	(1,638)	(3,239)	(6,596)	(7,553)
Non-controlling interests	-	-	-	639
Depreciation and amortization	2,296	1,795	5,277	4,972
Future income tax expense	(50)	(46)	(78)	(953)
Loss on sale of property, plant and equipment	16	376	16	935
Net movements in provisions for liabilities & charges	225	(325)	235	(78)
Foreign exchange loss (gain)	79	2	89	106
Loss (gain) on mortgage payable	(90)	452	989	(8)
Loss on investments (note 9)	760	1,800	2,260	1,800
Stock based compensation expenses	18	13	47	13
Changes in working capital:				
Inventories	(971)	103	(918)	(1,218)
Accounts receivables	798	(795)	(1,934)	(1,530)
Other current assets	(5)	-	(11)	202
Accounts payable and accrued liabilities	(468)	12	1,604	2,083
Income tax receivable/payable	851	(980)	6	1,020
Net cash generated from (used in) operating activities	1,821	(832)	986	430
Cash flows from investing activities				
Acquisitions of property, plant and equipment	(2,685)	(2,276)	(6,042)	(8,172)
Proceeds from sales of property, plant and equipment	-	-	-	146
Exploration and evaluation costs capitalized	(3,119)	(2,216)	(9,128)	(5,878)
Cash and cash equivalents of SMI proportionately deconsolidated (Note 4)	-	-	-	(1,102)
Acquisitions of intangible assets	(5)	-	(39)	(20)
Acquisitions of investments	-	(27)	-	(49)
Acquisitions of investments in Asset-Backed Commercial Paper (ABCP) (Note 9)	-	(12,000)	-	(12,000)
Proceeds from sales of investments	120	-	129	-
Net cash used in investing activities	(5,689)	(16,519)	(15,080)	(27,075)
Cash flows from financing activities				
Proceeds from borrowings	3,687	-	10,623	-
Repayments of capital lease obligations	(78)	-	(248)	-
Net change in bank indebtedness	45	326	35	448
Proceeds from issuance of stock	11	38	11	297
Dividends paid to non-controlling interest	-	-	-	(1,657)
Net cash provided by (used in) financing activities	3,665	364	10,421	(912)
Net decrease in cash and cash equivalents	(203)	(16,987)	(3,673)	(27,557)
Cash and cash equivalents at beginning of the period	10,607	36,505	13,062	47,991
Effect of exchange rates change on cash	(595)	(257)	420	(1,173)
Cash and cash equivalents at end of the period	9,809	19,261	9,809	19,261
Supplemental disclosures of Cash Flow Information				
Cash paid during the period for:				
Interest	(206)	-	(238)	-
Income tax	(77)	(583)	(2,497)	(2,629)

The accompanying notes are an integral part of these interim consolidated financial statements

La Mancha Resources Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2008

*Amounts in thousands of Canadian dollars unless otherwise stated
(unaudited)*

1. NATURE OF ACTIVITIES

La Mancha Resources Inc. (the "Company") was incorporated on October 10, 1996 under the Company Act of the Province of British Columbia in Canada. Through its subsidiaries and joint ventures, collectively "the Group", the Company conducts gold mining operations and/or exploration in Argentina, Australia, Côte d'Ivoire and Sudan.

A portion of the Group activities will be directed to the search for and the development of new mineral deposits. Significant capital investment will be required to achieve successful commercial production from such properties. In addition, significant capital investment may be required in order to maintain or expand the operations of the Group. There is no assurance that the Group will have, or be able to raise, the required funds to engage in these activities and this could have an impact on the recoverability of a portion of the assets which is partly dependent on this assumption.

2. INTERIM FINANCIAL INFORMATION

The financial information as at September 30 2008 and for the three and nine month periods ended September 30, 2008 and 2007 is unaudited. However, in the opinion of management, all adjustments necessary to present fairly the results of these periods have been included. The adjustments made were of a normal recurring nature. These unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and use the same accounting policies and methods used in the preparation of the Company's most recent annual consolidated financial statements, except for the new accounting standards as disclosed in note 3. These unaudited interim financial statements do not include all disclosures required for annual financial statements and should therefore be read in conjunction with the Company's most recent audited annual consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED

Capital Disclosures

On January 1, 2008, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "Capital Disclosures". This standard establishes guidelines for disclosure of information regarding an entity's capital which will enable users of its financial statements to evaluate an entity's objectives, policies and procedures for managing capital. Note 10 contain the disclosures required by this new Standard.

Financial Instruments – Disclosures

On January 1, 2008, the Company adopted the new CICA Handbook Section 3862, "Financial Instruments – Disclosures". This section describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance, the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. This section complements the principles of recognition, measurement and presentation of financial instruments of Section 3855, "Financial Instruments – Recognition and Measurement", Section 3863, "Financial Instruments – Presentation", and Section 3865, "Hedges". The additional disclosures required by this new Standard are provided in Note 9.

Financial Instruments – Presentation

On January 1, 2008, the Company adopted the new CICA Handbook Section 3863, "Financial Instruments – Presentation". This section retains unchanged the standards for presentation of financial instruments as either liabilities or equity and the related income and expenses related thereto which were previously contained in Section 3861 "Financial Instruments – Presentation and Disclosure". The adoption of this standard had no effect on the Company's financial statements.

La Mancha Resources Inc.

Notes to Interim Consolidated Financial Statements

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(unaudited)*

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Inventories

On January 1, 2008, the Company adopted the new CICA Handbook Section 3031, "Inventories" which replaces existing Section 3030 with the same title and harmonizes accounting and reporting for inventories under Canadian GAAP with IFRS. This standard requires that inventories be measured at the lower of cost and net realizable value, and includes guidance on the determination of cost, including allocation of overheads and other costs. The standard also requires that similar inventories within a consolidated group be measured using the same method. It also requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Upon the adoption of this new standard, total inventories were increased by \$336 and opening retained earnings by \$302 (net of future income taxes of \$34)

Going concern

On January 1, 2008, the Company adopted the new CICA Handbook Section 1400, "General Standards of Financial Statement Presentation" to include requirements to assess an entity's ability to continue as a going concern and disclose material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The adoption of this standard had no effect on the Company's financial statements.

FUTURE ACCOUNTING CHANGES

Goodwill and intangible assets

Issued in February 2008, Section 3064, "Goodwill and intangible assets", will replace Section 3062, "Goodwill and other intangible assets", and Section 3450, "Research and development costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes including but not limited to EIC 27 "Revenues and expenditures during the pre-operating period" and AcG-11 "Enterprises in the development stage". The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its interim period and fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

International Financial Reporting Standards

The Accounting Standards Board of Canada ("AcSB") plans to converge Canadian GAAP for publicly accountable enterprises with International Financial Reporting Standards ("IFRS") over a transition period that will end effective January 1, 2011 with the adoption of IFRS. The AcSB announced on February 13, 2008 that IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning at the latest on January 1, 2011. Information regarding the Company's plan for convergence and the anticipated effects are to be disclosed at year-end, December 31, 2008. The Company will convert to these new standards according to the timetable set with these new rules. The Company is currently assessing the future impact of these new standards on its consolidated financial statements.

La Mancha Resources Inc.

Notes to Interim Consolidated Financial Statements

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(unaudited)

4. RENEWAL OF MINING LICENCE OF THE ITY MINE AND TRANSFER OF OWNERSHIP INTEREST IN SOCIÉTÉ DES MINES D'ITY

On May 25, 2007, the Company reached an agreement with the authorities of the Republic of Côte d'Ivoire regarding the renewal of the mining permit of the Ity mine. The agreement was made in accordance with the Ivorian Code Minier of 1995. The Code Minier requires the holder of the mining permit to grant a 10% equity interest to the State in exchange for the first renewal of such mining permit. In order to meet the requirements of the Code Minier, Cominor and SODEMI, a state company of the Republic of Côte d'Ivoire and the then non-controlling shareholder of SMI directly transferred to the State 10% of their respective interest in SMI on behalf of SMI. The Company's interest in SMI has therefore been reduced from 51% to 45.9%. The Company's 45.9% share of estimated fair value of the renewed mining license has been estimated to approximate the carrying value of the 5.1% interest in SMI transferred to the State and accordingly no gain or loss has been recorded in the income statement in connection with this transaction.

In conjunction with this transfer, a new shareholders' agreement was entered into with SODEMI and the State which grants the shareholders joint control over SMI. As the Company's control on SMI has changed from unilateral control to joint control, the Company's 45.9% interest in SMI has been accounted through proportionate consolidation since May 25, 2007. Financial statements for prior periods have not been restated.

5. INVESTMENTS AND OTHER ASSETS

	<u>As at September 30</u>	<u>As at December 31</u>
	<u>2008</u>	<u>2007</u>
Investments in Australian listed equity securities	1,325	4,353
Investment in Asset-Backed Commercial Paper (ABCP) (see Note 9)	7,940	10,200
Deposits and prepaid expenses	301	70
	<u>9,566</u>	<u>14,623</u>

6. LOAN PAYABLE

In March 2008, the Company negotiated a short term treasury agreement with its majority shareholder to facilitate the funding of the construction and start-up costs of the underground phase of the Frog's Leg mine project in Australia. This agreement was for a temporary loan up to a maximum of AU\$ 8,000. The loans drawn under this agreement bore interest based on the LIBOR, 2 weeks, 1, 2, or 3 months index plus 0.30% per year, depending on the maturity of each loan. The loans were payable on maturity and could be extended for another period depending on liquidity availability. This agreement was not secured and could have been terminated at any time in the event that the affiliation between the parties had been altered.

This short term agreement was replaced by a medium term credit line agreement applicable since June 18, 2008. Any renewal of current withdrawals or any new withdrawals are submitted to the conditions of this medium term agreement.

The current agreement provides for a line of credit up to a maximum of AU\$ 15,000 until December 31, 2011. The credit line bears interest based on the 3 or 6 months LIBOR index plus 2.75% per year, depending on the duration of each withdrawal. The loans are payable on maturity and can be renewed for another period. This agreement is not secured and may be terminated at any time in the event that the affiliation between the parties should be altered.

As at September 30, 2008, the Company has drawn AU\$ 11,300 with a maturity ranging from November 2008 to March 2009 renewable until the expiration of this new agreement. Accrued interest payable at period end amounted to AU\$ 163. For the three and nine month period, the Group recorded an interest of AU\$ 223 and AU\$ 332 respectively in earnings with respect to the borrowings under these agreements.

La Mancha Resources Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2008

Amounts in thousands of Canadian dollars unless otherwise stated
(unaudited)

7. EARNINGS PER SHARE

Basic and diluted earnings per share have been calculated as follows:

	Three month period ended September 30		Nine month period ended September 30	
	2008	2007	2008	2007
Basic weighted average number of common shares outstanding	142,030,448	141,989,312	142,015,465	141,910,469
Dilutive effect of stock options	–	–	–	–
Diluted weighted average number of common shares outstanding	142,030,448	141,989,312	142,015,465	141,910,469

For all periods presented, the options and warrants outstanding have been considered anti-dilutive as the Company reported net losses.

8. SHARE CAPITAL

a) Authorized

An unlimited number of common shares without par value.

b) Warrants

Nine month period ended September 30, 2008

	Number	Carrying value \$	Weighted average exercise price \$
Beginning of period	8,266,583	276	\$ 2.00
Forfeited	(8,266,583)	(276)	–
End of period	Nil	Nil	–

All warrants expired on September 28, 2008.

c) Options

Nine month period ended September 30, 2008

	Number	Carrying value \$	Weighted average exercise price \$ per share
Beginning of period	1,016,000	54	1.20
Forfeited	(631,000)	(25)	1.29
Granted	680,000	–	0.45
Stock based compensation	–	47	–
End of the period	1,065,000	76	0.66

For the three and nine month periods ended September 30, 2008, the Group recorded stock based compensation expenses of \$ 18 (2007: \$13) and \$ 47 (2007: \$13) respectively.

La Mancha Resources Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2008

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(unaudited)

8. SHARE CAPITAL (CONTINUED)

c) Options (continued)

On August 14, 2008, the Company granted 40,000 stock options to consultants, exercisable at \$0.30 per share. One half of the options vest in August 2010 and the other half vest in August 2011. All options expire in August 2014. The fair value of \$0.1014 per option is based on the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 3.0%, expected volatility of 51%, expected dividend of nil and expected life of 6 years.

As at September 30 2008, the options outstanding under the plan are as follows:

Range of exercise prices	Number of options	Number outstanding		Number exercisable	
		Weighted average remaining contractual Life	Weighted average exercise price	Number of options	Weighted average exercise price \$
\$0.30 to \$0.46	680,000	5.5	\$ 0.45	–	–
\$0.85 to \$0.86	280,000	4.7	\$ 0.86	–	–
\$1.50	105,000	2.6	\$ 1.50	105,000	1.50
	1,065,000	5.0	\$ 0.66	105,000	1.50

In accordance with the Company's option plan, the options held by employees and directors of the Company expire 30 calendar days after their resignation. A total of 631,000 options were forfeited during the first quarter of 2008 in connection with these resignations.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The company has classified its financial instruments as follows:

Cash and cash equivalents, restricted cash and investment in Asset-Backed Commercial Paper (ABCP)	Held for trading
Investments in listed equity securities	Available-for-sale securities
Accounts receivable	Loans and receivables
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Loan Payable	Other financial liabilities

With respect to the gold ounce denominated mortgage payable, it is considered to contain an embedded derivative representing a swap on gold. As the loan's payment terms have not been adhered to, the entire balance is considered current and accordingly the term of the embedded gold swap is considered to be due on demand. Consequently, the fair value of the embedded derivative included in the debt's carrying amount is measured using the spot price at the balance sheet date.

Fair values

The fair value of financial instruments is estimated using the following methods and assumptions for each class of financial instruments.

Cash and cash equivalents, accounts receivables, accounts payable, restricted cash – The carrying amounts approximate fair values due to the short maturity of these financial instruments.

Investments in listed equity securities – The fair value of the Investment in listed equity securities is determined using the quoted market price at period end.

La Mancha Resources Inc.

Notes to Interim Consolidated Financial Statements

September 30, 2008

*Amounts in thousands of Canadian dollars unless otherwise stated
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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair values (continued)

Asset-backed commercial paper – The fair value of the Asset-backed commercial paper, as further discussed below in the credit risk analysis, is determined by using a probability-weighted approach employing assumptions and is based on the Group's assessment of market conditions at period end.

Loan payable – The loan payable bears interest at floating rates and therefore it is management's opinion that the carrying value approximates its fair value.

Mortgage payable – As discussed previously, the fair value of the mortgage payable is based on US\$ spot price of gold at period end.

Accordingly, at period end, the carrying amount of all of the Company's financial instruments approximates or is equal to fair value.

Risk management

The Group, through its financial assets and liabilities, has exposure to the following financial risks: credit risk, liquidity risk, and market risk. Market risk consists of price risk (including commodity price risk, and quoted market price risk), foreign exchange risk, and interest rate risk. The following analysis provides a measurement of risks as at the balance sheet date of September 30, 2008.

Credit risk

The Company's exposure to credit risk arises from the following financial assets: cash and cash equivalents, trade receivables, asset backed commercial papers, and restricted cash.

The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. From time to time, the Company will invest its excess liquidity in high quality and liquid short-term financial instruments limiting its exposure to credit risks. The carrying amount of financial assets represents the maximum credit exposure.

La Mancha Resources Inc.

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September 30, 2008

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(unaudited)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The maximum exposure to credit risk at the reporting date was:

	<u>As at September 30</u>	<u>As at December 31</u>
	<u>2008</u>	<u>2007</u>
Cash	7,057	11,337
Term deposits	753	1,126
Bankers' acceptances	1,999	599
Trade receivables	1,341	1,001
Other receivables	7,317	6,414
Investment in Asset-Backed Commercial Paper (a)	7,940	10,200
Restricted cash	1,005	1,162
	<u>27,412</u>	<u>31,839</u>

The Term deposits, Bankers' acceptance, and restricted cash mature between 7 and 365 days from the date of the investment with an average interest rate of 3.6% (2007: 4.3%).

The Group has a higher concentration of credit risk, with regard to its trade receivables, given the small number of customers; however, this risk is compensated by very short terms of payment and a close monitoring of each delivery.

The Other receivables are mainly made up of taxes receivable and receivables from government authorities. As these receivables arise from legislative measures they do not represent a high credit risk.

The following table set forth details of the trade receivables that are not overdue as well as an analysis of the overdue amounts and related allowance for doubtful accounts:

	<u>As at September 30</u>	<u>As at December 31</u>
	<u>2008</u>	<u>2007</u>
Trade receivable	1,341	3,283
Less: Allowance for doubtful accounts	—	—
	<u>1,341</u>	<u>3,283</u>
Of which:		
Not past due (less than 30 days)	1,341	3,283
Overdue	—	—
Less: Allowance for doubtful accounts	—	—
	<u>1,341</u>	<u>3,283</u>

(a) Investment in Asset-Backed Commercial Paper

As at September 30, 2008, the Group held two notes for a \$12,000 principal amount of Canadian non-bank sponsored asset-backed commercial paper ("ABCP") issued by two issuers. These two notes which were due and payable on September 4, 2007 remain outstanding as a result of the inability of the issuers to complete a rollover on the due date because of the lack of liquidity for ABCP. At the dates at which the Company acquired the investments, the notes were rated R-1 (High) by DBRS, the highest credit rating for commercial paper.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

(a) Investment in Asset-Backed Commercial Paper (continued)

On March 17, 2008, the Investors Committee for Third-Party Structured Asset-Backed Commercial Paper (“the Committee”) announced that it had asked the Ontario Court of Justice for permission to call a noteholder meeting to approve a proposed restructuring plan (the “Restructuring Plan”). The Court approved the request and the Committee released details of the Restructuring Plan to noteholders at the end of March, 2008. The noteholder meeting was held on April 25, 2008 and the Restructuring Plan was approved by 96% of noteholders ; on June 5, 2008, Judge Colin Campbell of the Court then sanctioned the Restructuring Plan.

On June 25 and 26, 2008, the Court of Appeal for Ontario heard motions from a number of corporate noteholders seeking to challenge the Ontario Superior Court of Justice decision that sanctioned the Restructuring Plan. On August 18, 2008, the Court of Appeal for Ontario upheld this sanction order. On September 19, 2008, the Supreme Court of Canada denied the number of corporate noteholders leave to appeal the Court of Appeal for Ontario decision. The Committee has indicated that it expects to complete the implementation of the Restructuring Plan by the end of November 2008.

Based on information available from the Restructuring Plan, the Group has elected to receive notes issued by Master Asset Vehicle 2 (“MAV2”). Upon completion of the Restructuring Plan, the Group estimates that it will receive \$2,921 of MAV2 Class A-1 Notes, \$6,639 of MAV2 Class A-2 Notes, \$1,155 of MAV2 Class B Notes, \$331 of MAV2 Class C Notes and \$954 of MAV2 Class IA Tracking Notes (collectively the “Long-term Notes”). The MAV2 Class A-1 Notes, MAV2 Class A-2 Notes, MAV2 Class B Notes will accrue interest at the Bankers’ Acceptances (“BA”) rate less 0.50%. The MAV2 Class C Notes will accrue interest at the BA rate plus 20%. The MAV2 Class IA Tracking Notes will bear interest at the rate equal to the net rate of return generated by the related specific underlying assets. The Group also estimates the maturity of the Long-Term Notes will range from 2 years to 8 years from September 30, 2008. The rating Agency DBRS has assigned a provisional rating of AA to class A-1 Notes and to class A-2 Notes.

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the Long-Term Notes. The Company estimates the fair values of the Long-Term Notes using a valuation technique which incorporates a probability-weighted approach applied to discounted future cash flows considering the best available data regarding market conditions for such investments as at September 30, 2008. The discount rates consider factors that include the BA rate and credit spread applicable to the anticipated credit rating. The Company also estimates the likelihood of failure of the Restructuring Plan to be 5%. The Group has considered current market conditions surrounding the Montreal Proposal such as liquidity, transparency and credit risk in developing the assumptions used in estimating the fair value of the ABCP. The Group recorded a reduction in fair value of \$4,060, of which \$2,260 is included in loss on investments, net for the nine-month period ended September 30, 2008 (a decrease in fair value of \$760 during the three-month period ended September 30, 2008). The reduction in fair value during the three-month period ended September 30, 2008 was due to deterioration in the credit market and increases in liquidity premiums since June 30, 2008, resulting in higher discount factors. As at September 30, 2008, the fair value of the Group’s Asset-Backed Commercial Paper was estimated at \$7,940.

Since the fair value of the Long-Term Notes is determined using a probability-weighted approach employing the foregoing assumptions and is based on the Group’s assessment of market conditions as at September 30, 2008, the fair value reported may change materially in subsequent periods due to changes in interest rates and credit conditions, the availability of more detailed information on the underlying assets supporting the notes held by the company. In addition, the fair value estimate is dependent upon the likelihood, nature and timing of implementation of the Restructuring Plan.

The Company used a wide range of discount rates resulting in a weighted-average discount of 8.3 % for the ABCP as at September 30, 2008. A 1% increase in the discount rate will decrease the fair value by approximately \$548.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in Note 10 - Capital Disclosures. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business. Since the reverse takeover of September 28, 2006, the Company had financed its exploration and mining activities through operating cash flows and the utilisation of its liquidity reserves. Furthermore, as discussed in note 6, a credit facility was recently established to help fund the development of the Frog Leg Project in Australia

The following are the contractual maturities of financial liabilities as at September 30 2008:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Bank indebtedness	152	152	–	–	–
Accounts payable and accrued liabilities	11,870	11,870	–	–	–
Loan payable	9,464	–	–	9,464	–
Mortgage payable	8,359	8,359	–	–	–

The Company's only derivative financial liability as at September 30, 2008 is included in the gold ounce denominated mortgage payable which is considered to contain an embedded derivative representing a swap on gold.

Market risk

Quoted market price risk

The Group's principal financial assets subject to quoted market price risk are its Investments in Australian listed equity securities for which no shares are held in excess of 9% of the investee. The carrying value of these securities equals their fair value.

The maximum exposure to market risk at the reporting date was:

	As at September 30 2008	As at December 31 2007
Investments in Australian listed equity securities	1,325	4,353
	1,325	4,353

Based on the balance as at September 30 2008, a 10% increase (decrease) in the quote bid price of the shares on that date would have resulted in an increase (decrease) of approximately \$93 (net of tax of \$40) in Other comprehensive income.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Commodity price risk

The Group is exposed to commodity price risk mainly arising from gold sales and energy supply and may use financial instruments, including forward sales agreements, to reduce its exposure to commodity price volatility. The Group currently is not party to any hedging contracts on gold or energy prices.

The Group's commodity price risk associated with financial instruments arises from the gold ounce denominated mortgage payable, which is considered to contain an embedded derivative representing a swap on gold. As the loan's payment terms have not been adhered to, the entire balance is considered current and accordingly the term of the embedded gold swap is considered to be due on demand. Consequently, the fair value of the embedded derivative included in the debt's carrying amount is measured using the spot price at the balance sheet date. The mortgage payable is therefore subject to fluctuations based on changes in the Canadian dollar equivalent of gold prices.

As at September 30, 2008, the mortgage payable was measured using the gold spot price of US\$884.50 per oz (December 31, 2007: US\$836.5.50 per oz) and an exchange rate of CA\$1.0599 to US\$1 (December 31, 2007: CA\$0.9900 to US\$1). For the three and nine month periods ended September 30, 2008, the Company recorded a gain (loss) of \$90 and \$(989) (2007: \$(452) and \$8) in its statement of operations related to this embedded derivative.

Based on the balance as at September 30, 2008, a 10% increase (decrease) in the gold price on that date would have resulted in a decrease (increase) of approximately \$836 in earnings net of income taxes.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency transactions, primarily with respect to the US dollar. Foreign exchange transaction risk arises primarily from future commercial transactions that are denominated in a currency that is not the functional currency of the Group's business unit that is party to the transaction. Furthermore, to manage its foreign exchange risk arising from future commercial transactions, the Group can use currency forwards and swaps. The Group currently is not party to any such hedging instruments.

The Group is exposed to the following significant currency risks as at September 30, 2008:

	Canadian dollar functional currency business units		Euro functional currency business units	
	US\$	ARG\$	US\$	Sudanese Dinar
Cash and cash equivalents	48	105	–	978
Accounts receivable	–	2,199	–	1,754
Accounts payable and accrued liabilities	(69)	(56)	(156)	(7,575)
Bank indebtedness	–	–	(118)	–
Mortgage payable	(7,886)	–	–	–
	(7,907)	2,248	(274)	(4,843)
Equivalent in CA\$	(8,381)	757	(290)	(2,398)

The Euro functional business units have balances denominated in Francs CFA. However, given the fixed rate peg of this currency to the euro, management does not consider that these balances are exposed to currency risk.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Foreign exchange risk (continued)

The AU\$ functional business units do not normally maintain financial instruments denominated in currencies other than the Australian dollar. The foreign exchange risk for this unit is limited to purchases of mining equipment and mining supplies. As of September 30, 2008, the Australian unit did not have any pending purchases and/or pending orders in a currency other than its functional currency.

Based on the financial instruments outstanding as at September 30, 2008, a 10% increase (decrease) in exchange rates of the respective foreign currencies on that date would have resulted in a decrease (increase) of approximately \$1,007 in earnings net of income taxes.

Furthermore, the Company is also exposed to foreign exchange risk in regard to the net investments in its Euro and AU\$ self-sustaining foreign operations. These foreign exchange variations are presented in the Other Comprehensive Income. For the nine month period ended September 30, 2008, the Company reported a foreign exchange gain of \$2,035 net of tax (2007: \$(4,747)). Based on the balance as at September 30, 2008, a 10% increase (decrease) in exchange rates of the respective foreign currencies on that date would have resulted in an increase (decrease) of approximately \$3,844 in Other Comprehensive Income.

Interest rate risk

The Group's exposure to interest rate risk arises from its credit facility recently negotiated with its majority shareholder.

The large majority of the cash and cash equivalents is invested in Canadian dollar denominated short term instruments while the restricted cash is invested in Australian dollar denominated short term bank deposits.

This credit facility bears interest based on the published LIBOR interest index.

The interest expense arising from these instruments is therefore subject to interest rate fluctuations.

Based on the balances outstanding during the quarter ended September 30, 2008, a 1% increase (decrease) in the interest rate index would have resulted in an increase (decrease) of approximately \$42 in earnings before income taxes.

10. CAPITAL DISCLOSURES

The Group is currently not subject to externally imposed capital requirements. The Group defines its capital as being constituted by its shareholders' equity. The Group manages its capital structure based on the relationship between the net debt, itself constituted by short-term and long-term financial debt, including capital lease obligations, for both current and long term portions, net of cash and cash equivalents, and capital.

The Group's capital management objectives are to:

- have sufficient capital to be able to meet the Company's mining properties exploration and mining development plan in order to ensure the growth of the activities.
- have sufficient access to liquidity to fund the exploration expenses and investing activities and the working capital requirements.

For the period ended September 30, 2008, the Company invested \$ 15,501 (2007 - \$14,070) in its Australian and African mining projects and expensed \$5,055 (2007 - \$5,900) in its exploration program.

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10. CAPITAL DISCLOSURE (CONTINUED)

Furthermore, for the nine month period ended September 30, 2008, the Company has obtained a medium term credit line agreement with its majority shareholder to facilitate the funding of the construction and start-up costs of the Frog's Leg mine project in Australia. This debt does not contain any financial covenants.

The company monitors capital on the basis of the net debt-to equity ratio. These ratios at September 30, 2008 and December 31, 2007 were as follows:

	<u>As at September 30</u>	<u>As at December 31</u>
	<u>2008</u>	<u>2007</u>
Bank indebtedness	152	119
Mortgage payable	8,359	7,369
Loan payable	9,464	-
Capital lease obligations	1,222	1,232
Financial liabilities	19,197	8,720
Cash and cash equivalents	9,809	13,062
Net debt (Cash surplus)	9,388	(4,342)
Shareholders' equity	97,377	104,679
Net debt / Shareholders' equity	0.10 : 1.0	(0.04) : 1.0

The Company's objective is to maintain a level of Net debt in line with the generated cash flow expected from its current and futures operations.

11. SEGMENTED INFORMATION

The Group's operations are concentrated on gold mining and exploration and are managed on a country by country basis. These segments are described below:

- **Côte d'Ivoire** reflects the joint venture interest in the operations of SMI, which operates the Ity gold mine in western Ivory Coast and holds contiguous exploration interests;
- **Sudan** reflects the Group's joint venture interest in the operations of AMC, which operates the Hassaï mines in north-eastern Sudan and holds contiguous exploration interests;
- **Australia** reflects the operations of LMRA. LMRA's mining operations on its two principal properties in Western Australia, White Foil and Frog's Leg, had been suspended since the fourth quarter of 2003 and the fourth quarter of 2005, respectively. During 2007, the open pit of White Foil was dewatered. The start-up of the mining operations was delayed in order to review the mining plan and milling opportunities. During the 3rd quarter of 2007, work has restarted to develop the underground phase of the Frog's Leg mine with a planned restart of mining operations in the 2nd quarter of 2008. On April 2008, the first stopping was reached and Ore material keeps on being extracted since. Ore material has been processed between May and September 2008. As of September 30, 2008, the Frog's Leg mine was still in its development phase. LMRA also holds exploration interests in Western Australia and, to a lesser extent, in Queensland;
- **Argentina** reflects the exploration activities carried out by Patagonia and Esperanza.

The Other activities reflect the Group's corporate risk management, treasury and support activities, unallocated assets located in France and Canada, and inter-segment eliminations.

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11. SEGMENTED INFORMATION (CONTINUED)

Revenue is allocated based on the country in which the gold is produced. Each of the Côte d'Ivoire and Sudan segments has one major customer that accounts for the majority of its revenue. Assets are attributed to where they are located. Capital assets include property, plant and equipment, mineral properties and intangible assets.

Three month period ended September 30, 2008						
	Côte d'Ivoire	Sudan	Australia (1)	Argentina	Other	Total
Revenue	5,383	5,729	478	-	561	12,151
Mine operating earnings (loss)	2,486	(233)	(887)	(144)	(1,645)	(423)
Interest income (expense)	5	53	(147)	-	45	(44)
Income tax expense	(604)	(1)	-	-	(117)	(722)
Net earnings/(loss)	1,887	(181)	(1,034)	(144)	(2,166)	(1,638)
Depreciation and amortization	694	1,185	400	-	17	2,296
Capital expenditures	696	1,231	3,795	-	87	5,809

Nine month period ended September 30, 2008						
	Côte d'Ivoire	Sudan	Australia (1)	Argentina	Other	Total
Revenue	14,732	20,983	1,455	-	1,534	38,704
Mine operating earnings (loss)	4,990	3,577	(3,929)	(957)	(5,017)	(1,336)
Interest income (expense)	5	84	(158)	-	109	40
Income tax expense	(1,285)	(361)	-	-	(494)	(2,140)
Net earnings/(loss)	3,710	3,300	(4,087)	(957)	(8,562)	(6,596)
Depreciation and amortization	2,023	2,134	1,051	-	69	5,277
Capital expenditures	1,466	1,756	12,054	-	225	15,501

As at September 30, 2008						
	Côte d'Ivoire	Sudan	Australia (1)	Argentina	Other	Total
Capital assets	10,808	10,540	34,601	7,180	343	63,472
Total assets	21,984	41,727	50,230	7,180	15,539	136,660

(1) During the nine month periods ended September 30 2008, the completion of the dewatering of the White Foil open pit allowed LMRA to recover some gold bearing residual material. This material was processed and gold with a value of AU\$2,000 was produced and sold. These revenues, net of the related production and processing costs, were deducted from the related development costs.

During the three and nine month periods ended September 30 2008, the sustained high level of gold prices allowed the processing of low grade stockpiles that originated from the Frog's Leg Mine open pit phase which had not been originally valued. For the three and nine month periods ended September 30 2008, Australian revenues of AU\$ 519 and AU\$1,544 respectively originated from the sale of this gold.

Furthermore, during the three and nine month periods ended September 30 2008, the processing of the first Ore material extracted from the Frog's leg underground mine generated revenues of AU\$2,950 and AU\$7,818 respectively. These processing were considered as tests run and the revenues generated by this activity, net of the related milling costs, were recorded against the capitalized assets of the project.

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11. SEGMENTED INFORMATION (CONTINUED)

Three month period ended September 30, 2007

	Côte d'Ivoire	Sudan	Australia	Argentina	Other	Total
Revenue	3,584	5,348	-	-	452	9,384
Mine operating earnings (loss)	779	569	(1,385)	(138)	(1,254)	(1,429)
Interest income (expense)	(1)	32	(2)	-	230	259
Income tax expense	(194)	(22)	612	-	(207)	189
Net earnings/(loss)	578	579	(776)	(138)	(3,482)	(3,239)
Depreciation and amortization	572	1,063	144	-	16	1,795
Capital expenditures	125	1,691	2,563	33	80	4,492

Nine month period ended September 30, 2007

	Côte d'Ivoire	Sudan	Australia	Argentina	Other	Total
Revenue	16,475	18,447	-	-	1,439	36,361
Mine operating earnings (loss)	2,698	2,471	(3,668)	(595)	(6,760)	(5,854)
Interest income (expense)	(26)	32	132	-	798	936
Income tax expense	(916)	(408)	1,570	-	(401)	(155)
Net earnings/(loss)	1,122	2,095	(2,023)	(595)	(8,152)	(7,553)
Depreciation and amortization	2,154	2,481	279	-	58	4,972
Capital expenditures	2,523	2,996	8,300	33	218	14,070

As at September 30, 2007

	Côte d'Ivoire	Sudan	Australia	Argentina	Other	Total
Capital assets	10,896	10,259	20,130	7,136	129	48,620
Total assets	18,203	41,655	37,300	7,601	25,950	130,709

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12. COMMITMENTS AND CONTINGENCIES

Hualilan I, Argentina

On July 17, 2007, the mortgage holder filed a petition of bankruptcy against Patagonia before the Juzgado Nacional de Primera Instancia en lo Comercial N° 10, Secretaría N° 20, of the City of Buenos Aires (the "Court"). This petition of bankruptcy was registered by the Court on December 12, 2007.

The Court handling the bankruptcy petition against Patagonia reported its first hearing and has requested additional information from the Superintendency of Corporations before it will issue a decision on the declaration of bankruptcy.

To date, no judicial decision was ordered and the bankruptcy has not been declared. Patagonia consequently still formally holds the right of usufruct over the Hualilan I mining complex and the mortgage remains a liability for Patagonia. An adverse outcome could have a material adverse effect upon the Company's interest in the Hualilan Gold Project.

The Group has classified the entire amount of the mortgage payable as if it were a current liability, as at September 30, 2008. The carrying amount of the net shareholders' deficiency of Patagonia in the consolidated financial statements of the Group, including the mortgage payable, amounts to \$2,435.

La Ortiguita Gold Project

The Group is committed through a joint venture agreement with TNR Gold Corp., owner of La Ortiguita's mining property rights. La Mancha may acquire a 42.66% interest by making some cash payments, shares issuances and by completing a program of expenditures on the mining property. These commitments must respect a schedule which is planned until July 2009. Following these commitments, the Company issued, in July 2008, a cash payment of US\$ 33,000 dollars and 27,000 shares at a price of \$ 0.40 per share to TNR Gold Corp. As of September 30, 2008 and in accordance with the terms of the agreement, the Group has completed the planned program of expenditures on the mining property for the years 2005 through 2008 and has already anticipated the program planned for 2008-2009 by allocating a cumulated total of US\$2,046 in expenditures over a planned program of expenditures of US\$ 2,030 for this agreement.

As of September 30 2008, the future commitments are schedule as follows:

	Cash payments	Shares to be issued
July 15, 2009	US\$ 43	49,500

13. EMPLOYEE FUTURE BENEFITS

The expense for employee future benefits related to defined benefit plans was as follows:

Three month period ended September 30		Nine month period ended September 30	
2008	2007	2008	2007
258	38	727	213