DAKOTA TERRITORY RESOURCE CORP
Form 10-Q
August 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

X .**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015

OR

.**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 000-501191

Dakota Territory Resource Corp
(Exact Name of Registrant as Specified in its

charter)

Nevada	**98-0201259**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10580 N. McCarran Blvd., Building 115-208	
Reno, Nevada	**89503**
(Address of principal executive offices)	(Zip Code)

(775) 747-0667
(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 past 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 X . No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X . No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition 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 X .

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes . No X .

Number of shares of issuer s common stock outstanding at August 11, 2015: 53,738,216

TABLE OF CONTENTS

DAKOTA TERRITORY RESOURCE CORP
BALANCE SHEETS
(Unaudited)

	June 30, 2015		March 31, 2015	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	56,477	$	2,355
Note receivable from related party		12,500		-
Prepaid expenses and other current assets		25,293		-
Total current assets		94,270		2,355
Other assets		7,500		15,430
Mineral properties		199,566		191,566
TOTAL ASSETS	$	301,336	$	209,351
LIABILITIES AND SHAREHOLDERS' DEFICIT				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	$	419,496	$	380,276
Accounts payable, related party		516,192		454,692
Line of credit		35,342		24,740
Notes payable		305,550		305,550
Note payable to related party		265,000		-
Convertible notes payable, net of discount of $86,306 and $0, respectively		113,694		100,000
Derivative liability		154,230		-
Total current liabilities		1,809,504		1,265,258
Note payable to related party		-		265,000
Total liabilities		1,809,504		1,530,258
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' DEFICIT				
Preferred stock, par value $0.001; 10,000,000 shares authorized, no shares issued and outstanding as of June 30, 2015 and March 31, 2015, respectively		-		-
Common stock, par value $0.001; 300,000,000 shares authorized,		53,738		53,738

53,738,216 shares issued and outstanding as of June 30, 2015 and March 31, 2014, respectively				
Additional paid-in capital		1,597,828		1,580,078
Accumulated deficit		(3,159,734)		(2,954,723)
Total shareholders' deficit		(1,508,168)		(1,320,907)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$	301,336	$	209,351

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

DAKOTA TERRITORY RESOURCE CORP
UNAUDITED STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2015	2014
OPERATING EXPENSES		
Depreciation and amortization	$ -	$ 333
Exploration costs	300	-
General and administrative expenses	128,570	240,774
Total operating expenses	128,870	241,107
LOSS FROM OPERATIONS	(128,870)	(241,107)
OTHER INCOME (EXPENSE)		
Derivative expense	(54,230)	-
Interest expense	(21,911)	(7,800)
Total other income (expense)	(76,141)	(7,800)
NET LOSS	$ (205,011)	$ (248,907)
Net loss per share:		
Basic and diluted net loss per share	$ (0.00)	$ (0.00)
Weighted average shares outstanding:		
Basic and diluted	53,738,216	52,302,145

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

DAKOTA TERRITORY RESOURCE CORP
UNAUDITED STATEMENTS OF CASH FLOWS

	Three Months ended June 30, 2015	2014
Net loss	$ (205,011)	$ (248,907)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	-	333
Shares issued for services	17,750	84,250
Derivative expense	54,230	-
Amortization of debt discount	13,694	-
Changes in current assets and current liabilities:		
Prepaid expenses and other assets	(17,363)	(25,378)
Accounts payable & accrued liabilities	39,220	(61,658)
Accounts payable, related party	61,500	(100)
Net cash used in operating activities	(35,980)	(251,460)
Cash Flows From Investing Activities:		
Issuance of note receivable to related party	(12,500)	-
Investment in mineral properties	(8,000)	-
Net cash used in investing activities	(20,500)	-
Cash Flows From Financing Activities:		
Proceeds from the issuance of convertible note payable	100,000	-
Proceeds from (repayments of) line of credit	10,602	(1,271)
Net cash provided by (used in) financing activities	110,602	(1,271)
Net change in cash	(54,122)	(252,731)
Cash and Cash Equivalents, Beginning of Period	2,355	456,329
Cash and Cash Equivalents, End of Period	$ (56,477)	$ 203,598
Supplemental Disclosure of Noncash Transactions		
Interest paid	$ -	$ -
Taxes paid	$ -	$ -
Debt discount on convertible note	$ 100,000	$ -

The accompanying notes are an integral part of these financial statements

5

DAKOTA TERRITORY RESOURCES CORP

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

(UNAUDITED)

Note 1 Basis of Presentation

The accompanying unaudited interim financial statements of Dakota Territory Resource Corp. (we , us , our , the Company , the Corporation) have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (SEC), and should be read in conjunction with the audited financial statements and notes thereto contained in our annual report on Form 10-K, for the year ended March 31, 2015 as filed with the SEC. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year ended March 31, 2015 as reported in our annual report on Form 10-K, have been omitted.

The Company s absence of revenues, recurring losses from operations, and its need for significant additional financing in order to fund its projected loss in 2016 raise substantial doubt about its ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 2 Related Party Transactions

Effective October 1, 2005, we began paying a management consulting fee to Minera Teles Pires Inc., a company controlled by the President and director of the Company. The agreement provides a fixed fee of $10,000 per month of which $5,000 is paid and the other $5,000 deferred until financing is obtained by us. Additionally, the agreement provides for a payment of $1,500 per month for office rent and expenses. On March 27, 2013, Minera Teles Pires, Inc. agreed to a re-structure of the amounts due under the agreement and agreed to forgive a total of $522,579. This amount was recorded to additional paid in capital. During the three months ended June 30, 2015, we incurred approximately $34,500 in management fees and rent from Minera Teles Pires Inc. As of June 30, 2015, we owed Minera Teles Pires approximately $281,000 for management fees and out of pocket expenses.

Effective February 24, 2012, we began paying consulting fees to Jerikodie, Inc., a company controlled by our Vice President and a director of the Company. The agreement provides a fixed fee of $9,000 per month plus approved expenses. During the three months ended June 30, 2015, we incurred approximately $18,000 in consulting fees from Jerikodie, Inc. As of June 30, 2015, we owed Jerikodie, Inc. approximately $201,000 for consulting fees and out of pocket expenses.

On March 19, 2013, the Company entered into an agreement with Wm Chris Mathers to compensate Mr. Mathers as the Company s CFO and agreed to pay Mr. Mathers cash in the amount of $1,000 per month increasing to $2,000 per month on September 1, 2013 and to $3,000 per month on March 1, 2014. During the three months ended June 30, 2015, we incurred $9,000 in compensation to Mr. Mathers. As of June 30, 2015, we owed Mr. Mathers $34,000 for consulting fees.

On June 29, 2015, our President and CEO borrowed $12,500, at 0% interest, from the Company. The note is due in full 90 days from the date of issuance. Mr. Bachman has deferred all compensation due him since January 1, 2015.

Note 3 Mineral Properties

On September 26, 2012, the Company was re-organized with North Homestake Mining Company. With this re-organization, the Company acquired 84 unpatented lode mining claims covering approximately 1,600 acres known as the Blind Gold Property located in the Black Hills of South Dakota.

On December 28, 2012, the Company acquired 57 unpatented lode mining claims covering approximately 853 acres known as the West False Bottom Creek and Paradise Gulch Claim Group, the City Creek Claims Group, and the Homestake Paleoplacer Claims Group, all located in the Black Hills of South Dakota. The West False Bottom Creek and Paradise Gulch Claims were contiguous to the Blind Gold Property and have been incorporated into the Blind Gold Property. The purchase price was 1,000,000 restricted common shares valued at $0.15 per share, or $150,000.

On February 24, 2014 the Company acquired surface and mineral title to the 26.16 acres of the Squaw and Rubber Neck Lodes that comprise Mineral Survey 1706 in the Black Hills of South Dakota. Located immediately to the north and adjoining the Company s Paleoplacer Property, Mineral Survey 1706 was explored by Homestake Mining Company in the late 1980 s. The Company is required to make annual lease payments of $8,000 for a period of 5 years, of which $8,000 was due upon execution of the agreement. The Company has an option to purchase the mineral property for $120,000.

On March 3, 2014**,** the Company completed the acquisition of approximately 565.24 mineral acres in the Northern Black Hills of South Dakota. The acquisition increased our mineral interests in the Homestake District by nearly 23%, to over 3,057 acres. As part of the property acquisition, the Company purchased an additional 64.39 mineral acres located immediately southwest and contiguous to our Paleoplacer Property, including mineral title to the historic Gustin, Minerva and Deadbroke Gold Mines. The three mines were the last of a string of mines that produced ores from fossil gold placers derived from the Homestake Lode and are located at the point where the channel disappears under the cover of younger sedimentary and intrusive rocks approximately one mile north of the Homestake Open Cut source. With this acquisition the Company consolidated and extended the Paleoplacer Property position to a distance extending approximately 3,100 feet along the south to north trend of the channel. The purchase price of the mineral interests was $33,335.

The Company plans to commence an exploratory program on these mineral properties as soon as financing can be arranged.

		June 30, 2015		March 31, 2015
Capitalized costs	$	199,566	$	191,566
Accumulated amortization		-		-
Impairment		-		-
Capitalized costs, net	$	199,566	$	191,566

Note 4 Notes Payable

The following notes payable are unsecured and bear interest at 5% per annum. They are due on demand:

Date	Maturity	Interest rate		Principal		Interest		Total
Nov 15, 2005	On demand	5% per annum	$	82,775	$	40,032	$	122,807
Dec 01, 2005	On demand	5% per annum	$	18,800	$	9,045	$	27,845
Jan 06, 2006	On demand	5% per annum	$	100,000	$	47,548	$	147,548
Jul 14, 2006	On demand	5% per annum	$	103,975	$	46,523	$	150,498

Total	$ 305,550	$ 143,148	$ 448,698

Note Payable to Related Party

We had 11 notes payable to our President pursuant to advances which had historically been made by the President. The notes were dated between March 2011 and August 2012, were unsecured, ranged in amount from $10,000 to $50,000, and bore interest at 12% per annum. These notes were re-structured and combined on March 27, 2013 into a single promissory note payable (the New Note). In conjunction with this restructuring, the President forgave accrued interest totalling $57,817 (recorded as an equity transaction). The New Note is unsecured, has a principal amount of $265,000, and bears interest at 4% per annum. We will apply 10% of the gross proceeds from any equity financing in an amount exceeding $0.5 million (whether one or more transactions) from and after the date hereof to prepay principal and accrued interest. All remaining unpaid principal and interest is due March 27, 2016.

As of June 30, 2015, the balance of the promissory note payable amounted to $570,550, of which $265,000 is due to related party on the balance sheet.

Note 5 Convertible Notes Payable

On August 14, 2008, we executed a 5% convertible note of $100,000 that was due August 13, 2010. The note is now due and payable, however the lender has to date made no request for payment. The note may be converted from time to time, all or any part of the principal plus any unpaid accrued interest ($34,931 as of June 30, 2015) thereof into common stock of the Company at a conversion price per share equal to the greater of i) the closing market price per share of the common stock on the trading day immediately preceding the date of conversion as quoted on the OTC-BB or such other exchange upon which the Company s shares are then listed or traded, or ii) $200 per share ($20.00 per share after adjustment due to 1 for 200 reverse stock split; $200 per share after a further adjustment due to a 1 for 10 reverse stock split). The conversion price shall be subject to adjustments. The minimum amount to be converted is $10,000. As of June 30, 2015, this note is outstanding.

On June 15, 2015, the Company executed a 5% convertible note of $100,000 that comes due December 15, 2015. The note may be converted from time to time, all or any part of the principal plus any unpaid accrued interest thereof into common stock of the Company at a conversion price of the lowest bid price less fifty (50%) percent during previous 5 days trading before the conversion date. The Black-Scholes pricing model was used to estimate that fair value of the number of shares that the note could have been converted into at the note s inception. At the time of the note s inception it was estimated that the note could have been converted into 1,862,197 shares of common stock. Using the assumptions of a risk free interest rate of 1.1%, dividend yield of 0%, volatility of 234%, and an expected life of 6 months, we have determined these shares to have an approximate fair value of $162,000. The Company also recorded a derivative liability since the note may be converted into shares at a variable rate equal to the bid price less fifty percent during the previous 5 days trading before the conversion date. The derivative liability recorded at the time of the note s inception was approximately $162,500 and a debt discount in the amount of approximately $100,000. On June 30, 2015, a change in the fair value of derivative liability was recorded in the amount of approximately $8,300 and a reduction in the debt discount of approximately $13,700.

Note 6 Line of Credit

We executed a Line of Credit with Wells Fargo Bank in California. The Line of Credit allows us to borrow up to $47,500. The balance of this Line of Credit at June 30, 2015 was approximately $35,300.

Note 7 Consulting Agreements

On June 3, 2015, the Company entered into a second one-year consulting agreement with Dr. Michael Terry, a former Homestake Geologic Researcher, to continue the research begun through the Company s first consulting agreement with Dr. Terry entered into on January 31, 2014. The new one-year agreement provides for compensation of 100,000 restricted shares of fully-earned Company common stock upon execution of the agreement and cash consideration in the amount of $1,500 per month, plus approved expenses. The Black-Scholes pricing model was used to estimate that fair value of the 100,000 shares of common stock. We have determined these shares to have an approximate fair value of $9,000. As of the date of this filing these shares have not been issued.

Note 8 Common Stock

Our authorized capital stock consists of 300,000,000 shares of common stock, with a par value of $0.001 per share, and 10,000,000 preferred shares with a par value of $0.001 per share.

During the first quarter 2016, we were authorized to issue 25,000 shares of our restricted common stock, at $0.35 per share, to a consultant for services valued at $8,750. As of the date of this filing these shares have not been issued.

At June 30, 2015, the total issued and outstanding shares were 53,738,216.

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

In this Quarterly Report on Form 10-Q, unless the context requires otherwise, references to Dakota Territory Resource Corp, "the Corporation" we, our or us refer to Dakota Territory Resource Corp. *You should read the followi discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing elsewhere in this quarterly report. This Quarterly Report on Form 10-Q may also contain statistical data and estimates we obtained from industry publications and reports generated by third parties. Although we believe that the publications and reports are reliable, we have not independently verified their data.*

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and the exhibits attached hereto contain forward-looking statements . Such forward-looking statements concern our anticipated results and developments in our operations in future periods, planned exploration and development of our properties, plans related to our business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as expects or does not expect , is expected anticipates or does not anticipate , plans , estimates or intends , or stating that certain actions, events or result could , would , might or will be taken, occur or be achieved) are not statements of historical fact and may forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q, include, but are not limited to:

.

the progress, potential and uncertainties of our 2015-2016 exploration program at our properties located in the Homestake District of the Black Hills of South Dakota (the Project);

.

the success of getting the necessary permits for future drill programs and future project exploration;

.

expectations regarding the ability to raise capital and to continue our exploration plans on our properties; and

.

plans regarding anticipated expenditures at the Project.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation:

·

risks associated with lack of defined resources that are not SEC Guide 7 Compliant Reserves, and may never be;

·

risks associated with our history of losses and need for additional financing;

·

·risks associated with our limited operating history;

·

risks associated with our properties all being in the exploration stage;

·

risks associated with our lack of history in producing metals from our properties;

·

risks associated with our need for additional financing to develop a producing mine, if warranted;

·

risks associated with our exploration activities not being commercially successful;

·

risks associated with ownership of surface rights at our Project;

·

risks associated with increased costs affecting our financial condition;

·

risks associated with a shortage of equipment and supplies adversely affecting our ability to operate;

·

risks associated with mining and mineral exploration being inherently dangerous;

) (8,698) (8,805)

Sales

3,210 3,344 (4) 13,007 13,036 0

Cost of goods sold*

(1,841) (1,884) (7,262) (7,103)

Gross profit

1,369 1,460 (6) 5,745 5,933 (3)

Sales and administrative expenses**

(910) (934) (3,897) (3,729)

Shares in earnings of associated co.

2 6 1 20

461 531 (13) 1,849 2,224 (17)

Settlement income

1,521

Operating income*

461 531 (13) 3,370 2,224 52

Net interest expense

(50) (44) (163) (54)

Other financial items, net

(17) (1) (1) 4

Net financial items

(67) (45) (164) (50)

Income before taxes and minority interests

394 486 (19) 3,206 2,174 47

Taxes

(140) (145) (1,314) (572)

Minority interests

(22) (11) (64) (44)

Net income for the period

232 330 (30) 1,828 1,558 17

Earnings per share, basic, SEK

0.73 1.00 5.61 4.68

Earnings per share, diluted, SEK

0.73 1.00 5.59 4.66

* Including writedowns in match operations with 150 MSEK

** Including provision for acquisition of shares in Wimco Ltd. of 90 MSEK

10

Consolidated Balance Sheet in summary

MSEK

	Dec 31, 2004	Dec 31, 2003
Intangible fixed assets	3,285	3,648
Tangible fixed assets	2,690	2,862
Financial fixed assets	760	616
Current operating assets	4,884	5,310
Liquid Funds	3,002	2,666
Total assets	**14,621**	**15,102**
Shareholders equity	4,358	4,010
Minority interests	473	597
Provisions	3,111	2,119
Long-term loans	2,559	4,535
Other long-term liabilities	21	66
Short-term loans	970	846
Other current liabilities	3,129	2,929
Total shareholders equity, provisions and liabilities	**14,621**	**15,102**

Change in Shareholders equity

MSEK

	Full year	
	2004	2003
Shareholders equity, opening balance as per December 31	**4,010**	**4,007**
Effect due to change n accounting principle	(257)	
Adjusted shareholders equity, opening balance	3,753	4,007
Cancellation of shares for transfer to unrestricted reserves	(36)	(24)
Increase of unrestricted reserves from cancellation of shares	36	24
Repurchase of own shares	(658)	(959)
Sale of treasury shares	82	55
Dividend paid	(558)	(535)
Translation difference for the period	(89)	(116)
Net income for the period	1,828	1,558
Total shareholders equity at end of period	**4,358**	**4,010**

Consolidated Cash Flow Statement in summary

MSEK

	Full year 2004	Full year 2003
Income after financial items	**3,206**	**2,174**
Non-cash items and taxes paid	82	199
Cash flow from operations before changes in Working Capital	**3,288**	**2,373**
Cash flow from changes of Working Capital	338	265
Cash flow from operations	**3,626**	**2,638**
Investments		
Investments in property, plant and equipment	(486)	(551)
Sales of property, plant and equipment	42	26
Investments in intangibles	(34)	(27)
Investments in consolidated companies	(10)	(78)
Acquisition of subsidiaries	(53)	
Divestment of business operations	117	
Changes in financial receivables etc.	(47)	5
Cash flow from investments	**(471)**	**(625)**
Financing		
Changes in loans	(1,819)	(131)
Dividends	(558)	(535)
Dividends to minority in subsidiaries	(121)	
Repurchase of own shares	(658)	(1,012)
Sale of treasury shares	82	55
Other	295	296
Cash flow from financing	**(2,779)**	**(1,327)**
Cash flow for the period	**376**	**686**
Liquid funds at the beginning of the period	2,666	2,016
Translation difference attributable to liquid funds	(40)	(36)
Liquid funds at the end of the period	**3,002**	**2,666**

Quarterly data

MSEK

	Q4/02	Q1/03	Q2/03	Q3/03	Q4/03	Q1/04	Q2/04	Q3/04	Q4/04
Sales, including tobacco tax	5,496	4,951	5,531	5,788	5,571	4,972	5,626	5,765	5,342
Less tobacco tax	(2,170)	(1,945)	(2,257)	(2,376)	(2,227)	(1,970)	(2,251)	(2,345)	(2,132)
Sales	**3,326**	**3,006**	**3,274**	**3,412**	**3,344**	**3,002**	**3,375**	**3,420**	**3,210**
Cost of goods sold	(1,826)	(1,617)	(1,769)	(1,833)	(1,884)	(1,588)	(1,870)	(1,813)	(1,841)

Gross profit	**1,500**	**1,389**	**1,505**	**1,579**	**1,460**	**1,414**	**1,505**	**1,607**	**1,396**
Sales and administrative expenses	(931)	(881)	(955)	(958)	(935)	(953)	(977)	(967)	(910)
Shares in earnings of associated co.	5	8	3	3	6	(1)	0	0	2
	574	**516**	**553**	**624**	**531**	**460**	**528**	**640**	**461**
Income from settlement with UST						1,417	104		
Match impairment charges								(150)	
Provision for acquisition of shares in Wimco Ltd								(90)	
Operating income	**574**	**516**	**553**	**624**	**531**	**1,877**	**632**	**400**	**461**
Net interest expense	(37)	(38)	78	(50)	(44)	(42)	(39)	(32)	(50)
Other financial items, net	(6)	19	(9)	(5)	(1)	(4)	12	8	(17)
Net financial items	(43)	(19)	69	(55)	(45)	(46)	(27)	(24)	(67)
Profit before tax	**531**	**497**	**622**	**569**	**486**	**1,831**	**605**	**376**	**394**
Income taxes	(138)	(149)	(102)	(176)	(145)	(732)	(239)	(203)	(140)
Minority interests	(14)	(11)	(7)	(15)	(11)	(8)	(17)	(17)	(22)
Net income for the period	**379**	**337**	**513**	**378**	**330**	**1,091**	**349**	**156**	**232**

Sales by product area

MSEK

	Q4/02	Q1/03	Q2/03	Q3/03	Q4/03	Q1/04	Q2/04	Q3/04	Q4/04
Snuff	698	689	758	776	772	751	814	791	725
Chewing Tobacco	310	295	294	291	266	254	282	285	237
Cigars	805	644	751	826	787	687	846	848	790
Pipe Tobacco & Accessories	225	214	214	228	253	211	214	234	242
Matches	380	348	343	340	364	324	340	348	366
Lighters	165	151	154	149	145	147	145	148	142
Other operations	743	665	760	802	757	628	734	766	708
Total	**3,326**	**3,006**	**3,274**	**3,412**	**3,344**	**3,002**	**3,375**	**3,420**	**3,210**

Operating income by product area

MSEK

	Q4/02	Q1/03	Q2/03	Q3/03	Q4/03	Q1/04	Q2/04	Q3/04	Q4/04
Snuff	310	305	350	372	359	353	364	370	286
Chewing Tobacco	95	84	86	94	72	73	81	83	67
Cigars	111	80	87	129	97	104	131	148	83
Pipe Tobacco & Accessories	45	46	45	54	56	52	44	60	64
Matches	44	38	31	9	5	(30)	(51)	13	11
Lighters	14	9	0	6	(1)	7	7	5	(12)
Other operations	(45)	(46)	(46)	(40)	(57)	(99)	(48)	(39)	(38)
Subtotal	**574**	**516**	**553**	**624**	**531**	**460**	**528**	**640**	**461**
Income from settlement with UST						1,417	104		
Match impairment charges								(150)	
Provision for acquisition of shares in Wimco Ltd.								(90)	
Total	**574**	**516**	**553**	**624**	**531**	**1,877**	**632**	**400**	**461**

Operating margin by product area

PERCENT

	Q4/02	Q1/03	Q2/03	Q3/03	Q4/03	Q1/04	Q2/04	Q3/04	Q4/04
Snuff	44.4	44.3	46.2	47.9	46.5	47.0	44.7	46.8	39.4
Chewing Tobacco	30.6	28.5	29.3	32.3	27.1	28.7	28.7	29.1	28.3
Cigars	13.8	12.4	11.6	15.6	12.3	15.1	15.5	17.5	10.5

Pipe Tobacco & Accessories	20.0	21.5	21.0	23.7	22.1	24.6	20.6	25.6	26.4
Matches	11.6	10.9	9.0	2.6	1.4	(9.3)	(15.0)	3.7	3.0
Lighters	8.5	6.0	0.0	4.0	(0.7)	4.8	4.8	3.4	(8.5)
Group*	**17.3**	**17.2**	**16.9**	**18.3**	**15.9**	**15.3**	**15.6**	**18.7**	**14.4**

* Excluding income from settlement with UST and expenses from match impairment charges and provisions of 1,281 MSEK net

Changed accounting principles Transition to IFRS

The financial statements for fiscal year 2004 are prepared in accordance with Swedish Generally Accepted Accounting Principles (Swedish GAAP) whereas the financial statements for fiscal year 2005 will be prepared in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS is due to a regulation by the European Union stating that all publicly traded companies within the European Union shall prepare consolidated financial statements fully in compliance with IFRS from and including fiscal year 2005.

According to the rules, IFRS has to be applied retrospectively for fiscal year 2004 for comparison reasons and restated figures for 2004 has to be included in the financial reports for 2005. However, the accounting of financial instruments (IAS 32 and IAS 39) and of share-based options (IFRS 2) is exempt from retrospective application and will not be restated by Swedish Match. To facilitate for interested parties, Swedish Match encloses the restated 2004 full year figures in this interim report.

For Swedish Match, the transition to IFRS will change the accounting of biological assets (IAS 41), goodwill (IFRS 3 and IAS 38), financial instruments (IAS 32 and IAS 39) and share-based options (IFRS 2). The accounting principles for employee benefits (IAS 19) was already adopted on January 1, 2004, under Swedish GAAP whereas Swedish Match s financial statements already comply with IAS 19.

Changes in financial statements due to transition to IFRS

Special treatment will apply for biological assets under IFRS, whereas these assets are treated according to the same rules as for other fixed assets under Swedish GAAP. The special treatment of biological assets is outlined in IFRS 41 *Agriculture*. According to IFRS 41, biological assets shall be reported at its fair value at each reporting date. The change in fair value may be attributable to physical changes or changes in market prices of biological assets. Increments or decrements in the fair value of a biological asset shall be recognized in the income statement as gains or losses. This implies that the income statement will reflect an assessed net growth in addition to actual harvest or felling. The new rules also affect the accounting of inventory as the initial measurement of agricultural produce shall be reported at its fair value. Swedish Match s biological assets consist of forestry and leaf tobacco plants. The restated book value of biological assets amounts to 98 MSEK which compares to the book value according to Swedish GAAP of 76 MSEK.

The accounting for goodwill will change in two respects; the criteria for recognizing goodwill in a business combination has been determined in more detail and the rules for amortization have changed. The new rules for accounting of goodwill are mainly outlined in IFRS 3 *Business combinations* and IAS 38 *Intangible assets*. The way of performing a purchase price allocation is made more rigorous in IFRS 3 compared to Swedish GAAP and requires more intangible assets to be identified prior to the recognition of goodwill. The useful lives of the intangible assets will be determined as finite or indefinite. Finite lived intangible assets will be amortized according to plan whereas amortization according to plan will cease for indefinite lived intangible assets. Indefinite lived intangible assets will instead be tested for impairment annually. Goodwill will by definition always have an indefinite useful life. Under present Swedish GAAP, all intangible assets, including goodwill, are determined to have finite useful lives and are amortized according to plan. For Swedish Match, the restated 2004 financial statements will not amortize goodwill whereas the book value of goodwill will increase by 167 MSEK and operating profit by 175 MSEK.

The rules for reporting of share-based payments (such as Swedish Match s option program), IFRS 2, imply that an assessed fair value of the options shall be expensed at grant date.

The rules for reporting of financial instruments, IAS 39, mainly imply that financial instruments shall be reported at fair value at each reporting date.

The changes due to the application of IFRS 2 and IAS 39 will effect Swedish Match s financial reporting for 2005. Comparative figures for 2004 will not be prepared as retrospective application is not required according to the transition rules.

Comparison of financial statements according to Swedish GAAP and IFRS

In the tables below, the financial statements according to Swedish GAAP is accompanied with the restated financial statements according to IFRS as well as the reconciliation between the two. Expenses for share-based payments (IFRS 2) and financial instruments (IAS 39) are not included in the reconciliation as these reporting standards are not applied retrospectively.

Consolidated adjusted opening balance per Jan 1, 2004 in summary

MSEK

	Reported Dec 31, 2003	Biological assets IAS 41	Pension IAS 19	IFRS Jan 1, 2004
Intangible fixed assets	3,648			3,648
Tangible fixed assets	2,862	8		2,869
Financial fixed assets	616		108	724
Current operating assets	5,310			5,310
Liquid Funds	2,666			2,666
Total assets	**15,102**	**8**	**108**	**15,218**
Shareholders equity	4,010	5	(257)	3,758
Minority interests	597	0	7	604
Provisions	2,119	2	357	2,478
Long-term loans	4,535			4,535
Other long-term liabilities	66			66
Short-term loans	846			846
Other current liabilities	2,929		0	2,930
Total shareholders equity, provisions and liabilities	**15,102**	**8**	**108**	**15,218**

Consolidated adjusted closing balance per Dec 31, 2004 in summary

MSEK

	Reported Dec 31, 2004	Goodwill IAS 38	Biological assets IAS 41	IFRS Dec 31, 2004
Intangible fixed assets	3,285	167		3,452
Tangible fixed assets	2,690		22	2,712
Financial fixed assets	760			760
Current operating assets	4,884			4,884
Liquid Funds	3,002			3,002
Total assets	**14,621**	**167**	**22**	**14,809**
Shareholders equity	4,358	143	15	4,516
Minority interests	473	7	1	481
Provisions	3,111	16	6	3,134
Long-term loans	2,559			2,559
Other long-term liabilities	21			21
Short-term loans	970			970
Other current liabilities	3,129			3,129
Total shareholders equity, provisions and liabilities	**14,621**	**167**	**22**	**14,809**

Consolidated Income Statement in summary

MSEK

	Reported Jan Dec 2004	Goodwill IAS 38	Biological assets IAS 41	IFRS Jan Dec 2004
Sales, including tobacco tax	21,705			21,705
Less tobacco tax	(8,698)			(8,698)
Sales	**13,007**			**13,007**
Cost of goods sold*	(7,262)		15	(7,247)
Gross profit	**5,745**		**15**	**5,760**
Sales and administrative expenses**	(3,575)			(3,575)
Amortization	(322)	175		(147)
Shares in earnings of associated companies	1			1
	1,849	**175**	**15**	**2,040**
Settlement income	1,521			1,521

Operating income	**3,370**	**175**	**15**	**3,561**
Net interest expense	(163)			(163)
Other financial items, net	(1)			(1)
Net financial items	**(164)**			**(164)**
Income before taxes and minority interests	**3,206**	**175**	**15**	**3,396**
Taxes	(1,314)	(18)	(4)	(1,336)
Minority interests	(64)	(8)	(1)	(72)
Net income for the period	**1,828**	**149**	**10**	**1,988**
Earnings per share, basic, SEK	5.61			6.10
Earnings per share, diluted, SEK	5.59			6.08

* Including writedowns in match operations with 150 MSEK

** Including provision for acquisition of shares in Wimco Ltd. of 90 MSEK

Key data

	Reported Jan-Dec 2004	IFRS Jan-Dec 2004
Operating margin, %[1)]	16.1	17.5
Operating capital, MSEK	7,054	7,243
Return on operating capital, %[1)]	27.1	29.1
Return on shareholders equity, %	43.7	48.1
Net debt, MSEK	527	527
Net debt/equity ratio, %	10.9	10.5
Equity/assets ratio, %	33.0	33.7
Investments in tangible assets, MSEK	486	486
EBITDA, MSEK[2)]	2,869	2,884
Share data		
Earnings per share, SEK		
Basic	5.61	6.10
Diluted	5.59	6.08
Excluding settlement income and match impairment charges and provisions, diluted	3.63	4.12
Shareholders equity per share, SEK	13.55	14.05
Number of shares outstanding at end of period	321,516,893	321,516,893
Average number of shares outstanding	325,708,645	325,708,645
Average number of shares outstanding, diluted	326,933,791	326,933,791

1) Excluding settlement income and match impairment charges and provisions
2) Operating income excluding settlement income from UST and match impairment charges and provisions adjusted for amortization and writedowns

Operating income by product area

MSEK

	Reported Jan-Dec -04	IFRS-adjustments	IFRS Jan-Dec -04
Snuff	1,373	3	1,376
Chewing Tobacco	304	0	304
Cigars	466	101	567
Pipe Tobacco & Accessories	220	34	254
Matches	(57)	45	(12)
Lighters	7	6	13
Other operations	(224)	2	(222)
Subtotal	**2,089**	**191**	**2,280**
Income from settlement with UST	1,521		1,521
Match impairment charges	(150)		(150)
Provision for acquisition of shares in Wimco Ltd.	(90)		(90)
Total	**3,370**	**191**	**3,561**

Operating margin by product area

PERCENT

	Reported Jan-Dec -04	IFRS-adjustments	IFRS Jan-Dec -04
Snuff	44.6	0.1	44.7
Chewing Tobacco	28.7	0.0	28.7
Cigars	14.7	3.2	17.9
Pipe Tobacco & Accessories	24.4	3.8	28.2
Matches	(4.1)	3.2	(0.9)
Lighters	1.2	1.0	2.2
Group	**16.1***	**1.5**	**17.5***

* Excluding income from settlement with UST and expenses from match impairment charges and provisions of 1,281 MSEK net

FORWARD LOOKING STATEMENTS: Certain matters discussed within this press release may constitute forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Although management believes that its financial expectations are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. The following factors, among others, could cause the Company s financial performance to differ materially from that expressed in such statements: (1) changes in consumer preferences resulting in a decline in the demand for and consumption of tobacco, (2) political disturbances, (3) additional governmental regulation of tobacco or further tobacco litigation, and (4) enactment of new or significant increases in existing excise taxes.

Swedish Match AB (publ), SE-118 85 Stockholm

Visiting address: Rosenlundsgatan 36, Telephone: 08 658 02 00

Corporate Identity Number: 556015-0756

www.swedishmatch.com

For further information, please contact:

Sven Hindrikes, President and Chief Executive Officer

Office +46 8 658 02 82, Mobile +46 70 567 41 76

Lars Dahlgren, Chief Financial Officer

Office +46 8 658 04 41, Mobile +46 70 958 04 41

Bo Aulin, Senior Vice President, Secretary and General Counsel

Office +46 8 658 03 64, Mobile +46 70 558 03 64

Emmett Harrison, Vice President, Investor Relations (IR)

Office +46 8 658 01 73, Mobile +46 70 938 01 73

Richard Flaherty, Vice President, Business Control & CFO, IR (US)

Office +1 804 302 1774, Mobile +1 804 400 1774