

ITRONICS INC  
Form 10KSB/A  
January 06, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-KSB/A  
AMENDMENT NO. 2

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2004**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (No Fee Required)

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 33-18582

ITRONICS INC.

(Name of small business issuer in its charter)

Texas

75-2198369

(State or other jurisdiction of (I.R.S. Employer Identification Number)  
incorporation or organization)

6490 South McCarran Boulevard, Building C, Suite 23 Reno, Nevada

89509

(Address of Principal Executive Offices) Zip Code

Issuer's telephone number: (775) 689-7696

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Securities registered under Section 12(b) of the Exchange Act:

Title of each class                      Name of each exchange on  
which registered

None

None

Securities registered under Section 12(g) of the Exchange Act:

None

(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 ( )

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. (x)

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State issuer's revenues for its most recent fiscal year: \$1,720,049.

The aggregate market value of the voting stock held by non-affiliates, computed by reference to the average of the bid and asked prices for such stock as of March 31, 2005, was \$12,357,275.

As of March 31, 2005 there were issued and outstanding 191,182,367 shares of the Registrant's Common Stock.

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ITRONICS INC. AND SUBSIDIARIES

2004 FORM 10-KSB ANNUAL REPORT

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### ITEM 1.

#### DESCRIPTION OF BUSINESS.

#### **INTRODUCTION**

We are the inventor and developer of the "Beneficial Use Photochemical, Silver, and Water Recycling" technology that produces environmentally beneficial GOLD'n GRO fertilizers and silver bullion.

We are an environmental process technology company that has developed what we believe is a unique technology for photochemical recycling. We, through our subsidiary, Itronics Metallurgical, Inc., extract more than 99% of the silver and virtually all of the other toxic heavy metals from used photoliquids and use this "Beneficial Use Photochemical, Silver and Water Recycling" technology to produce environmentally beneficial chelated liquid fertilizer sold under the trademark GOLD n GRO, animal repellent/fertilizer to be sold under the trademark GOLD n GRO Guardian, and silver bullion. We also provide process planning and technical services to the mining industry.

## OUR PRODUCTS AND SERVICES

We currently operate the following two business segments under separate wholly owned subsidiaries:

Photochemical Fertilizer: This segment, known as Itronics Metallurgical, Inc., operates a fertilizer manufacturing, photochemical recycling, and silver refining facility. Revenues are generated by photochemical management services, sales of photochemical concentrators, sale of silver, and sale of GOLD n GRO liquid fertilizer products.

### Mining Technical Services

: This segment, known as Whitney & Whitney, Inc., provides mineral project planning and technical services to the mining industry. It has specialized knowledge in all aspects of mineral project development and has been deeply involved in gold mine development for more than 25 years. It employs technical specialists with expertise in the areas of mining, geology, mining engineering, mineral economics, material processing, and technology development. Technical services have been provided to many of the leading U.S. and foreign mining companies, several public utilities with mineral interests, to various state agencies, the U.S. and foreign governments, and the United Nations and the World Bank. WWI was under contract with the Country of Bolivia from 1986 through early 1992 to assist it in developing its mining industry. In 2005 WWI launched an internet website to provide gold mining company profiles to the interested public.

We have three wholly owned subsidiaries, Whitney & Whitney, Inc. ("WWI"), Itronics Metallurgical, Inc. ("IMI"), and Itronics California, Inc. (ICI), a 92.5% owned partnership, Nevada Hydrometallurgical Project ("NHP"), and an 82.53% owned joint venture, American Hydromet. A brief description of each organization follows:

### Itronics Metallurgical, Inc.

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IMI is our wholly owned subsidiary. IMI was established in 1981 to manage the metallurgical and materials processing operations being developed under WWI and American Hydromet research and development programs. IMI has been the main provider of management services to American Hydromet since 1986. IMI is now managing the photochemical/GOLD'n GRO fertilizer segment as discussed below.

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### Nevada Hydrometallurgical Project

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Nevada Hydrometallurgical Project ("NHP") is a research and development partnership formed in 1981 to fund research into potential commercial applications for certain hydrometallurgical process techniques developed by the U.S. Bureau of Mines Research Center in Reno, Nevada between 1970 and 1979. A number of potential commercial applications were defined by NHP, one of which is the American Hydromet silver/gold refining technique. In late 1985, NHP assigned its interest in the silver/gold refining technique to American Hydromet. NHP retained its proprietary interest in the other potential commercial applications for future developments. NHP continues as a financing and technology owning partnership. We own 92.5% of NHP.

### American Hydromet

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American Hydromet is a Nevada joint venture that was formed in 1985 to develop certain silver and gold refining/recovery technology and to create business based upon such technology. The photochemical fertilizer segment now being managed by IMI is owned by American Hydromet. The ownership interests in American Hydromet are: NHP for 76.5%, IMI for 1%, and American Gold & Silver Limited Partnership ("AG&S") for 22.5%. AG&S is a Nevada limited partnership, for which WWI serves as the general partner and owns a general and limited partnership interest totaling 11%. We own a 37% limited partnership interest in AG&S. In total, we own approximately 83% of American Hydromet.

Itronics California, Inc.

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Itronics California, Inc. (ICI) was acquired in March 1999 by Itronics Metallurgical, Inc. ICI, originally named PD West, Inc., was acquired for its phosphoric acid recycling technology. ICI has no business operations but plans are to utilize the phosphoric acid technology and may eventually operate IMI's photochemical services and GOLD'n GRO fertilizer business in California.

Whitney & Whitney, Inc.

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WWI was incorporated in 1977 and is our wholly owned subsidiary. WWI was primarily a mineral consulting firm that provides planning and technical services to the mining industry. WWI is now developing an internet website to provide gold mining industry data to the investing public, while maintaining a presence in the technical consulting field.

SUMMARY HISTORY OF OPERATIONS

Whitney & Whitney, Inc. was established to provide a wide range of technical services to the mining industry. During the 1980's, WWI completed several multi-client fertilizer marketing studies. Also during this time period, WWI was contacted by state and local environmental officials concerning the problem of photographic wastes, laden with silver and other toxic heavy metals, being dumped in local sewer systems.

Over the years, the mining technical services business was highly cyclical, closely following the base and precious metals industries, and specifically, the price of copper, other base metals and gold. This condition pointed out the necessity of expanding our business into new industries. When considering the fertilizer marketing studies previously performed, along with the growing national issue of sewer system contamination with toxic photowastes and silver toxicity to fish, it seemed to be a natural extension of WWI's existing expertise to expand

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into the photowaste recycling business. In 1987 the decision was made to move forward with research and development of a process to extract silver from photographic liquid wastes. It took until 1997 to develop and demonstrate a satisfactory fertilizer and to complete university testing to demonstrate its agronomic viability.

In March 1998 IMI signed a five year definitive licensing, manufacturing, and distribution agreement with Western Farm Service, Inc. (WFS), one of the largest liquid fertilizer bulk retailers in the western United States. The agreement was renewed in March 2003 for another five years, subject to annual cancellation provisions. The agreement grants WFS an exclusive license and right to manufacture and market IMI's GOLD'n GRO line of bulk liquid fertilizer products for the Turf & Ornamental and Specialty Agricultural markets in the states of Arizona, California, Hawaii, Idaho, Oregon, and Washington. WFS has approximately 90 agricultural retail outlets in these states. In the discussion

below, and elsewhere in this report, we refer to this group of retail outlets as our licensed distributor network.

A 35,000 square foot manufacturing plant in Reno/Stead, Nevada was purchased in 1999. Construction of the liquid processing area was completed in early 2000, and a "shake-out" period was completed in which small batches of photochemicals were processed and small batches of fertilizer were manufactured. By late 2000 the new facility had demonstrated the ability to "demetallize" the received photo liquids to required EPA levels, thereby proving the technical viability of the new technology on a commercial scale. By the first quarter of 2001 we were positioned to develop sales for more than a dozen liquid fertilizer products.

In 2001, at the request of our licensed distributor, we developed a chelated liquid micronutrient zinc fertilizer with the objective of selling the product in truckload quantities. This fertilizer development was successful and provided the basis for the first tank truck load sales in the fourth quarter of 2001. During 2002 this new bulk liquid fertilizer was successfully introduced into the distributor network. During 2002 work on a bulk liquid GOLD'n GRO fertilizer that could be used as a "base liquid" in the distributor's proprietary field blends was commenced. In 2003 development work on a second chelated liquid micronutrient zinc product for bulk sale was initiated. Field testing of both new bulk liquid fertilizers was conducted during 2003 and in late 2003 they were approved for introduction into the distributor sales network for 2004.

During the same 2001 to 2003 period, more than two dozen liquid fertilizer formulations were evaluated for suitability and market potential. By the end of 2003, product line development had been completed, and 13 fertilizers covering two categories have been established: chelated liquid multinutrient fertilizers and chelated liquid micronutrient fertilizers. The fertilizers are sold both to the general public and through licensed and non-licensed distributors. Product improvement and new product development will continue, but our focus in 2005 and future years will be primarily on GOLD'n GRO Liquid Fertilizer sales expansion and on expansion of the services business as needed to support increasing GOLD'n GRO fertilizer sales.

In 2003 we participated in the development of an animal repellent/fertilizer that will be sold under the trademark GOLD'n GRO Guardian. Using one of the GOLD'n GRO multi-nutrient liquid fertilizers as a base liquid, which has the property of being taken into the plant as a fertilizer and imparting odor and taste characteristics that are offensive to deer and other

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animals, such as rabbits, that eat plants. The GOLD'n GRO Guardian product was field tested during 2003 and was approved for use by the North American Deer Management Network in the fourth quarter of 2003. GOLD'n GRO Guardian is a repellent fertilizer product and must be registered under both the pesticide regulations and the fertilizer regulations for each state in which it will be sold. The product must also be registered with the Federal EPA as a biopesticide. Introduction of this product for commercial sales will be delayed until the registrations are completed. Subsequent to December 31, 2004, we acquired the interest in the GOLD n GRO Guardian trademark, product rights, and the repelling product formula owned by Mr. Howland Green. We now own 100% of all rights related to GOLD n GRO Guardian. Mr. Green has become one of our directors and is Northeast Manager for GOLD n GRO Sales Development. Substantial funding over twelve to twenty-four months will be required to complete the EPA and California registration process.

During the period 1999 through 2003 we developed a "low temperature vacuum distillation" machine that operates at room temperature and is able to remove up to 80% of the water from photochemical solutions without damaging the chemicals, producing a high silver content concentrate that can be shipped as a commercial product in inter-state commerce. The distilled water is clean enough for re-use on site and the reduction in volume of material needing to be shipped produces 80 percent reduction in transportation cost making shipment possible anywhere in the United States. These machines have been released for commercial sale under the trademark "Itronics Metallurgical Photochemical Silver Concentrators".

In 2002 we delivered five of these Photochemical Silver Concentrators to the Department of Defense. Two additional Photochemical Silver Concentrators were delivered in the third quarter of 2003. This program is regarded as a pilot project, which may lead to providing "Beneficial Use Photochemical, Silver, and Water Recycling" services to all branches of the U.S. military and is being developed by the Department of Defense in consultation with the Federal EPA.

After we began producing fertilizer, we noted that the by products of the process were the main materials needed to manufacture glass and ceramic. Therefore, in early 2003, we began research and development of glass and tile formulations. During 2003, the first pieces of glass/ceramic tile were produced. With the successful development of a glass/ceramic tile product, we achieve the ability to recycle 100 percent of the materials received from customers, including waste that is generated internally during processing. In 2005, and future years the silver refining technology development and the glass/ceramic tile products development efforts will be expanded in parallel with expansion of GOLD'n GRO fertilizer sales.

A more detailed discussion of our business, based on our two business segments described above, follows.

## PHOTOCHEMICAL FERTILIZER

### Operations

We operate a commercial scale plant to receive used photochemical liquids, recover the silver and other metals, and convert the demetallized solutions to liquid GOLD'n GRO fertilizer products. A critical component of this integrated manufacturing system is to match, within a reasonable range, the incoming volume of photochemical liquids with the utilization of those liquids in fertilizer or other manufactured products.

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Photochemical services operates as a regional business in northern Nevada, serving more than 200 customers in the northern Nevada market. A satellite service operation has been established in the San Francisco Bay Area which is a large market with at least three strong competitors. We are able to compete effectively based upon pricing and service quality.

Growth of silver bullion output is driven by photochemical processing to support GOLD'n GRO fertilizer sales. There are some opportunities to expand silver output separate from photochemical recycling, but profit margins for the refining services are very small when compared to the inventory requirements and the security risk. Because of these factors, gold and silver refining services are limited to categories of materials where our proprietary technology can be used and that offer better profit margins than conventional precious metal refining. We will be actively looking at opportunities to expand this segment in future years.

In early 2003 we initiated a program to market the Itronics Metallurgical Photochemical Silver Concentrators to large consumer photography and medical x-ray facilities throughout the United States. This is a cost effective method for us to expand our photochemical supply for use in GOLD'n GRO fertilizer manufacturing. Photochemical silver concentrators are expected to be a source of revenue growth in future years as we continue to expand nationally. Our photochemical blending technology is designed to utilize the concentrate in fertilizer, after it is demetallized.

Spent photochemical liquids received from customers are logged and recorded, then tested for silver content and contaminants. We achieve high contaminant control standards by working proactively with our regular customers. Once testing is completed, the photographic solutions are available for processing.

### Growth Plans and Implementation

Implementation of our "Beneficial Use Photochemical and Water Recycling" technology is continuing with expansion of the number of branches within the licensed distributor network selling GOLD n GRO fertilizer. Our licensed distributor is integrating our GOLD n GRO fertilizer products into its proprietary field programs in a way that makes them essential components. Once our products are in, substitution back to prior programs becomes difficult. Because of this, we believe sales growth is solid and is integrated to enhance the likelihood of repeat sales as we move into the future.

We have been working with our licensed distributor network to identify market segments into which the GOLD'n GRO fertilizer products can be successfully sold. This process has identified three fundamental uses, or functions, of the GOLD n GRO fertilizers, which are (1) replace existing fertilizers that do not fully satisfy existing needs, (2) develop new fertilizers which will satisfy presently unfulfilled needs, and (3) develop fertilizers that can be blended into existing proprietary field blends to improve their effectiveness. Replacement fertilizers are expected to have higher sales growth rates than fertilizers developed to fulfill the other two functions, defined as development products. The GOLD n GRO Guardian fertilizer being developed as an animal repellent/fertilizer fits into the second category, and the GOLD n GRO Base Liquid fits into the third category.

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The GOLD'n GRO fertilizer line provides several fertilizers for the turf and ornamental markets, 3 fertilizers for the nursery and specialty agriculture markets, and 5 high quality chelated micronutrient fertilizers which can be used in all of the markets. The GOLD'n GRO chelated liquid micronutrient and chelated liquid multinutrient fertilizers are considered to be "Specialty Liquid Fertilizer" and fit into the Specialty Fertilizers segment of the national and international fertilizer markets, generally sold in smaller quantities and at higher prices than NPK fertilizers (Nitrogen (N), Phosphate(P), and Potassium(K), which are sold as single nutrient products in large tonnages at relatively low bulk commodity prices. We presently sell our commercial GOLD n GRO fertilizers in 2.5 gallon, 55 gallon, and 250 gallon containers and partial or full truck load quantities of up to 4,800 gallons.

We have become an important supplier of chelated micronutrient and chelated multinutrient specialty fertilizers to our licensed distributor for several reasons, one of which is that improved nutrient uptake is being demonstrated in large scale field applications of the GOLD'n GRO fertilizers when compared to applications that use established chelated micronutrient fertilizers. Improved crop nutrient uptake reduces nutrient costs and increases crop yields, generating a significant economic benefit for the grower customers. A second reason is that the photographic byproduct materials used as base components provide the chelates at a much lower cost compared to purchasing new "unused" chelates. A third reason is that the GOLD'n GRO liquid fertilizers are specifically designed for fertigation application in micro-sprinkler and drip irrigation, which is a growing application method and requires liquid fertilizers with superior stability in irrigation water under widely varying conditions.

Most of the GOLD n GRO fertilizers are currently registered for sale in Arizona, California, Colorado, Hawaii, and Nevada, and GOLD n GRO 9-0-1+7% Zinc and GOLD n GRO 9-0-2+3% Zinc are registered in Idaho, Oregon, and Washington. GOLD n GRO 8-8-8+4% Sulphur is registered in Rhode Island, Massachusetts, Connecticut, Delaware, New Jersey, Pennsylvania, and New York. GOLD'n GRO bulk product sales are established in Arizona and California, with the majority of the sales being made in California. Registration of selected GOLD n GRO fertilizer products in Washington, Oregon, and Idaho was completed in March 2005. Implementation is underway to begin sales in those states. We are developing bulk customers in northern Nevada and have started discussions with potential distributors in selected states not covered by our licensed distributor network, including the northeastern states, Florida, and Texas.

We have expanded the number of GOLD'n GRO liquid fertilizers being offered through our "e-store" catalog. This expanded offering makes GOLD'n GRO available to two important Professional Market segments: the Landscape Maintenance Market and the Nursery and Greenhouse Market. Internet sales are still relatively small as a percentage of total sales, but have grown in each of the past two years.



The project to develop and sell a line of animal repellent/fertilizers under the trademark GOLD 'n GRO Guardian provides direct GOLD 'n GRO marketing and distribution for the northeastern states into the Landscape Construction and Maintenance, and the wholesale and retail Nursery and Greenhouse markets. The new GOLD 'n GRO Guardian animal repellent/fertilizer line presents the opportunity to develop products for the animal repellent market, an emerging national market in which product offerings are currently limited. Deer and other plant eating animals are becoming a major urban problem and are now doing tens of millions of dollars in damage to urban landscaping each year.

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We are continuing to develop new sources of used photochemical liquids, although we presently have more than adequate volume of in-coming photoliquids to support current and near term GOLD'n GRO fertilizer sales growth. We have been developing Itronics Metallurgical Photochemical Silver Concentrator technology to reduce the cost of transporting the used photochemical liquids to the Reno manufacturing plant. We have also been identifying and qualifying both non-photochemical sources of used chelates and non-photochemical waste streams that might be useable as substitute materials for virgin additive raw materials that we presently purchase.

GOLD'n GRO fertilizer products are formulated to match potential new sources of secondary chelates so that as GOLD'n GRO fertilizer sales continue to expand we can begin to use "non-photo" chelates. Replacing virgin additive materials with materials from secondary sources provides us with equivalent materials at lower cost. Some manufacturing process changes will be required to accommodate these adjustments in raw material sourcing, but this will be beneficial due to reductions in raw material costs and the improved cost stability that will be achieved.

Sales of 5 ounce "Silver Nevada Miner" bars through our "e-store" are continuing, although those sales are still relatively small. The sales of finished silver bullion from internally recovered silver will expand, but will continue to fluctuate until GOLD'n GRO sales reach larger volumes.

Our manufacturing plant is presently configured for an initial manufacturing capacity of 7.2 million gallons per year or 36,000 tons of GOLD'n GRO products. Planned storage and truck loading capacity expansions and automation of some manufacturing functions, must be completed before this capacity can be achieved. Some of these requirements are discussed more fully below. Unexpected new market opportunities have already required modification of certain expansion plans. As we continue to identify and develop our GOLD'n GRO liquid fertilizer product markets, additional unforeseen changes could require additional plan modifications. With the introduction of additional bulk products, additional load out facilities are needed, at a capital cost estimate of \$400,000. This project is scheduled for completion in the first half of 2006.

In 2004, we completed installation of a heat exchange system for an installed cost of \$196,000. This system has provided more than a five times increase in manufacturing capacity for certain GOLD 'n GRO fertilizers.

### Competition

Our GOLD 'n GRO fertilizer products compete with well established fertilizer companies that have significantly more capital with which to market their products. Our competitors include large companies such as Scotts Miracle-GRO, Dow AgroSciences Company, Uniroyal Chemical Corporation, and smaller companies such as Pursell Technologies, Inc. We believe that our fertilizers compete primarily on the basis of product quality and performance.

Our photochemical recycling fees are generated primarily from removing used photochemicals from our customer s sites. We compete for these customers with large national firms like Safety Kleen and Philips Environmental but our primary competitors are smaller regional firms like ECS Refining in Northern California.

We sell our silver bullion to a commercial refiner under standard industry terms. We are a very small producer of silver; consequently the refiner will purchase all the silver we can presently produce. For several years, there has been a global shortage in the supply side of the silver market. Our ability to sell our silver bullion could only be impacted if there were a dramatic negative change in the silver market, and only then if we grow to be a much larger silver producer than we are now.

## Markets

### Fertilizer

The total fertilizer market consists of the "Agricultural Market" and the "Urban Market". The Urban Market accounts for at least \$9 billion in annual sales in the United States. The "Specialty Ag" segment of the Agricultural Market is a \$5 billion segment making the total a \$14 billion market. Substantially all of our present GOLD n GRO fertilizer sales are in the "Specialty Ag" segment.

More than 50 million tons of fertilizer products are sold annually in the United States. This includes almost 20 million tons of multi-nutrient fertilizers and almost 3.5 million tons of secondary nutrient and micro-nutrient products. About 38 percent of the total usage is as fluid fertilizers. Our 2004 sales represent less than 0.0005 percent of the 2004 multi- and micro-nutrient market.

Our GOLD'n GRO fertilizers are all liquid. There are major differences in manufacturing, distribution, and sale of liquid fertilizers as compared to dry fertilizers. Basic differences are described here so that the investor can better understand the technology, logistics, and application of liquid fertilizers and thereby gain a better understanding for the market niche that we are entering.

Liquid fertilizer technology is more complex than dry technology. Typically dry solids can be readily blended into dry mixtures that can then be bagged, or transported as dry bulk powders. In contrast, liquid fertilizers are reacted products and must be manufactured using precise recipes so that the final product will remain stable. Dry products can be stored for years without degradation, whereas liquid products typically have a limited storage life ranging from a few days for proprietary field blends, up to 4 years or longer for certain types. Liquid fertilizers can also freeze over a rather wide range of temperatures, a problem not encountered with dry fertilizers. Because of these technical factors, bringing a line of liquid fertilizers to market is much more complex than bringing a line of dry products to market.

Dry fertilizers are typically applied with dry spreaders. Liquids are sprayed on with tank sprayers or aircraft, injected into the soil using special applicators, or applied through irrigation systems using sprinklers, micro-sprinklers, or drip irrigation. Liquid fertilizers can also be applied with ditch irrigation by running the fertilizer into the water at controlled rates. The use of irrigation water to apply the liquid fertilizers is called fertigation.

Dry fertilizer packaging and transport is typically simpler and less costly than liquid fertilizer packaging and transport. Bulk liquids must be moved in tank trucks or tank rail cars and stored in large bulk tanks at distribution points. The distributors who sell the liquids to farmers must install and operate tank farms and maintain a fleet of specialized applicators.

Distribution and application of liquid fertilizers typically requires specialized technical knowledge related to mixing and handling as compared to the use of dry fertilizers. Liquid fertilizers are typically easier and less costly to apply when irrigation is available, and availability of the fertilizer nutrients in the soil for uptake by crops is greater when liquid fertilizers are used. Use of fertigation to apply liquid fertilizers can reduce tractor trips through the fields,

reducing cost and also reducing soil compaction. Because of less cost for application and improved availability of the liquid nutrients to the plants, liquid fertilizers in the United States are continuing to gain market share. Use of liquid starter mixes for dry land crops is also expanding, especially for planting field crops such as cotton, corn, soybeans, and wheat.

Only certain fertilizer distribution companies have specialized in marketing liquid fertilizers and have the facilities and equipment required to sell, deliver, and apply the liquid fertilizers. Our licensed distributor is such a company.

The GOLD'n GRO fertilizers are complex and represent a new category of liquid nutrition technology. The GOLD'n GRO fertilizers contain bulk chelating agents that conventional liquid fertilizers do not contain. The chelating agents, which are normally quite costly, are supplied as components of the starting photographic liquids. The chelating agents improve the availability of micronutrient metals such as zinc, iron, manganese, and the secondary nutrients calcium, and magnesium. The photoliquids also have a natural content of sulfur, the other important secondary nutrient. These chelate enriched multinutrient characteristics distinguish the GOLD'n GRO liquids from other liquid fertilizers and are the main reason why the GOLD'n GRO liquid fertilizers represent a new type of nutrient technology.

The animal repellent/fertilizer market is a new market for us. The users of this product will be upscale homeowners and commercial and municipal facilities, and commercial nurseries. The deer population is growing rapidly in the northeastern U.S. and so the center of gravity for this product is the northeastern seaboard states. The initial sales center will be in Rhode Island. The markets being served are the Commercial Landscape and wholesale and retail Nursery segments. The GOLD'n GRO Guardian line of products is strictly for non-food plant applications so the distribution channels are different from the channels being developed for GOLD'n GRO fertilizers.

The U.S. market for deer repellents is believed to be well in excess of \$50 million per year. Products currently in the market are believed to have limited effectiveness so an opportunity exists for a line of systemic products that are effective for several weeks after each application. The GOLD'n GRO Guardian is demonstrating effectiveness for 8 to 12 weeks, and may be able to provide "year round" protection. We plan to pursue development of this line of products as rapidly as possible.

#### Photochemical Recycling

We estimate there are more than 1,500 generators of photographic hazardous waste in the State of Nevada and more than 500,000 throughout the United States. This includes printed circuit board manufacturers, photo off-set printers, photographic developers, lithographers, photographers, micro-filming (banks, companies, etc.) and x-ray users (dentists, doctors, hospitals, podiatrists, orthopedic surgeons, veterinarians, radiologists and industrial x-ray

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users). We estimate the total annual market for recycling this category of waste to be in the range of \$400 to \$500 million.

We are aware of digital imaging and its impact on usage of conventional photography. The impact is different for each of the major segments; medical, color photography, and printing/microfiche. Digital imaging has made significant inroads into printing/microfiche processing with an almost 85% reduction in volume of photographic liquids over the past ten years. Over the last several years, it became clear to us that contrary to popular belief, digital photography is creating a new source of photowastes from Internet companies that combine digital imaging services with the ability to print high quality photographs for their customers. Digital methods are being adopted in the medical industry, and although the medical sector is relatively high growth with the aging U.S. population, digital imaging has had the effect of slowing the growth of waste photo liquids being generated and may lead to a decline in future years.

A larger impact on photo waste generation has been the pressure for companies to reduce the amount of waste generated at the operating sites. In photography, water was used in copious quantities for film rinsing and large quantities of low chemical content waste liquids were generated. With the tightening of regulation of discharge of contaminated waters the equipment manufacturers have focused on reducing water usage. This attention to reduction of waste water has contributed to a reduction in the quantities of waste liquids being generated. It is expected that efficiency of use and associated waste reduction will continue, driven by increasing waste disposal costs. On-site photochemical recovery using a Photochemical Silver Concentrator and re-using the recovered water is expected to continue to become more and more attractive to photochemical waste generators.

Environmental restrictions on disposal of chemicals are continuing to tighten throughout the United States with the result that now the rate of growth for our photochemical recycling business is dependent upon the rate and vigor of fertilizer sales growth.

### Silver

Nationally, more than 80 million ounces of silver are consumed in photomaterials annually. Approximately 30% of this is lost through disposal. The Silver Institute indicates that silver usage in photography is stable, but may decline modestly over the next several years.

### Seasonality and Working Capital

In analyzing the market and industry competitors, it is apparent that two factors significantly impact our ability to penetrate these markets in a meaningful way. First, the seasonal aspect of fertilizer sales, which directly results in the second factor, the need for a much higher level of working capital when compared to other industries. Based on experience, we expect fertilizer sales to continue to have a strong seasonal component, with the primary sales season running from April through November each year, with an in-season low in July and August. In addition to the general seasonal nature of sales caused by normal weather patterns, unusual weather can further affect fertilizer sales, especially in winter and spring. For example, unusually cold or wet spring seasons may delay the growing cycle of various crops for which our fertilizer products are utilized. To overcome weather related effects on fertilizer sales, we are evaluating markets in the southern areas of the United States where growing seasons are longer and, in some cases, year round.

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Due to the seasonal nature of GOLD'n GRO fertilizer sales, we must increase our net working capital to a level higher than that of non-seasonal industries. For example, some of our competitors have working capital equal to their annual sales. Consequently, ongoing debt and equity funding will be required for us to grow, even after a profitable level of operations is achieved.

### Research, Development, and Technology

The majority of our research and technology is proprietary, which means it has not been patented, but is protected with strict confidentiality agreements and limited access to our research and production facilities. A U.S. patent on the silver separation process was issued in 1987 and is now expired. We made a corporate decision to not patent our research results as the cost of obtaining and defending patents is prohibitive.

We conduct field trials to gather agronomic data and to develop knowledge of how the GOLD'n GRO products work on different crops. This field testing will continue as it is the most effective method for developing the field data needed to support claims of product effectiveness for specific crops. On-going field trials of GOLD n GRO fertilizer products continue to show significant improvements in crop production and quality. The trials are providing agronomic data that is being used to develop GOLD n GRO nutrition programs for the crops being tested.

The field trials are demonstrating that the GOLD n GRO products provide both agronomic and economic benefits in the "specialty agricultural" markets. Specialty agriculture includes vegetables, cut flowers, herbs and spices, and fruits and nuts of all types. These crops are relatively high value compared to field grains such as corn, wheat, and soybeans. Field trials in 2002 on cotton and on silage corn produced positive results, opening two new large acreage crops for GOLD'n GRO application development. Alfalfa is typically considered as a "hay" or "forage" crop and is generally of low to intermediate value when compared to specialty agricultural crops, however, high nutrient content alfalfa for the dairy market often commands a significant price premium which puts it at the low end of specialty agricultural crop values.

A 3 year field trial on Valencia orange trees being carried out with oversight from a major university in southern California was completed in 2004. Two year cumulative results have been analyzed and significant positive results were obtained. Fruit output per tree and fruit quality were both increased.

During 2003, we completed a key phase of the research project to produce formulated glass products. The research has identified three product categories: (1) a glass ceramic mixture that can be used to produce tile and other shapes suitable for glazing and commercial use; (2) glass formulations that can be used as "lead free" low and intermediate temperature glazes for decorative tile and the craft pottery trade; and (3) specialty boro-silicate glass formulations. The next phase of the research will focus on production of small quantities of products for evaluation and market studies and is expected to be completed over the next two to three years.

During 2003 and 2004 we continued to be offered the opportunity to explore the feasibility of recycling other non-photographic materials into fertilizer. We have concluded that certain acid waste streams generated by aerospace and electronics manufacturers may be able to be converted

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to a form that will fit "Beneficial Use" recycling into fertilizer in association with the processed photochemical materials.

#### Environment and Regulation

All chemistry has a "cradle to grave" regulatory life span. This term means under Federal law, the prime generator has the ultimate liability for all generated waste as long as it exists. For example, conventional services, through storing and hauling, relocate the waste to a legal landfill or dispose it to sewer. Liability then remains for the cost of cleanup if the landfill has to be reclaimed or the contamination of groundwater develops.

However, once the spent chemistry reaches our facility and has been processed, the generator's hazardous waste liability has been removed. Using our process, virtually all metals, including most of the iron, are removed. The end result leaves us with a non-hazardous "toxic-metal-free" liquid which is legal for use in high quality GOLD n GRO liquid fertilizers.

While in general our business has benefited substantially from increased governmental regulation of hazardous disposal by private industry, the waste management and recycling industry itself has become subject to extensive, costly and evolving regulation by federal, state and local authorities. We make a continuing effort to anticipate regulatory, political and legal developments that might affect our operations, but may not always be able to do so. We cannot predict the extent to which any legislation or regulation may affect future operations.

In particular, the regulatory process requires firms in our industry to obtain and retain numerous governmental permits to conduct various aspects of their operations, any of which permits may be subject to revocation, modification or denial. We are not in a position at the present time to assess the extent of the impact of such potential changes in governmental policies and attitudes on the permitting process.

For several years we have been studying the various regulatory requirements under RCRA and have been working with state and local environmental officials regarding the extent to which hazardous waste regulations apply to our operations. Through this process, we reached the conclusion that due to use of photochemicals as a beneficial ingredient in our fertilizer products, the photochemicals are not "hazardous waste" as defined in the regulations, and therefore, beneficial materials that are otherwise regulated as hazardous waste, are exempt from most of such regulations. In early 1996 we received concurrence from State of Nevada environmental officials that our photochemical fertilizer process meets the existing RCRA requirements for exemption from all environmental regulation with the exception that certain presently conducted lab analyses of the photochemicals will continue to be required. Certain of our large scale customers presently meet the exemption requirements. Present levels of fertilizer sales utilize all the photochemicals received. Once sales of all the photochemical materials are well established in the fertilizer or other commercial products, all our Nevada customers will be exempt from the regulations, including hazardous material transport/manifest rules. We believe that this exemption applies nationwide. Therefore, we intend to pursue similar concurrence from environmental officials in all applicable states, so that all our customers will be recognized as exempt from the RCRA regulations.

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Environmental regulation of photowaste generators has strengthened over the last several years, and that trend is expected to continue. In the past year, heavy metal contamination of fertilizers has become a significant issue in California and other parts of the country. Public concern over this issue is expected to intensify. We believe that the GOLD n GRO line of fertilizer products is uniquely suited to alleviating this environmental concern and that we are well positioned to meet future environmental needs.

#### Permits and Inspections

To the best of our knowledge, we have obtained permits from all governmental agencies having jurisdiction, such as the EPA, Nevada Department of Environmental Protection, Washoe County Health Department and the City of Reno, Nevada. We are not required to obtain federal permits, but are required to have, and have obtained, local permits for our photochemical recycling facility under the provisions of the Federal EPA. Similar permits will be required of all facilities that we may construct. Our recycling facility is subject to frequent inspections and to regulations (including certain requirements pursuant to federal statutes) which may govern operating procedures for land, water and air pollution, among other matters. In particular, our operations are subject to the Safe Drinking Water Act, TSCA (Toxic Substances Control Act-pursuant to which the EPA has promulgated regulations concerning the disposal of PCBs), the Clean Water Act (which regulates the discharge of pollutants into surface waters and sewers by municipal, industrial and other sources) and the Clean Air Act (which regulates emissions into the air of certain potentially harmful substances). Employee safety and health standards under the Occupational Safety and Health Act are also applicable to our employees.

#### MINING TECHNICAL SERVICES

##### Services offered

Our Mining Technical Services segment offers a wide range of technical services to the mining industry, including management support, mineral project development, ore reserve and material balance reviews, expert assistance in contract dispute or litigation, and mineral economics and cost studies

##### Operations

Our Mining Technical Services segment accounted for 17% 2004 consolidated revenue. Golden Phoenix Minerals, Inc. produced 75% of this revenue. The client is a junior mining company with three mineral properties in Nevada. WWI provided technical assistance in moving these properties into the development and operating stages. WWI also provided administrative support. The contract with this client expired on March 1, 2005.

The primary source of new business for the Mining Technical Services segment is the reputation of WWI and its key employees. In addition, WWI expands its network of contacts by attending various mining association conventions.

#### Expansion Plans

In January 1999 WWI initiated a long term R&D project to replace the use of cyanide in the

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extraction of metals from silver/gold and gold/copper ores. The new thiosulfate leaching technology being developed under this program utilizes the same technology as our proprietary photochemical recycling process. The project, called Itronics Thiomet, is seeking to establish operating joint ventures at specific mine sites to apply the thiosulfate leaching technology. This project is on hold pending further commercial development of fertilizer sales.

In 2004 a project to establish a subscription based gold industry and gold company Internet publication was begun. The web publication, called "insidemetals.com", provides the customer with gold industry and gold company financial, production, and ore profiles on key gold producing companies. Initially, the companies to be profiled are in the Gold Company sector, which includes gold, silver, platinum, and palladium producers. The profiled companies are publicly traded on the New York and American Stock Exchanges and on NASDAQ. The publication was launched in August 2005 and the target market includes gold company employees, governmental agencies, both domestic and foreign, and individual investors interested in the gold markets. In addition to providing subscription revenue, it is anticipated that the publication will enhance our opportunity to obtain new sources for technical consulting work. This subscription based Internet Information Portal provides an opportunity for relatively unrestricted growth by being available to a diverse global base of potential customers.

#### Competition

Our consulting services are generally in the area of management support and mineral economics. Management support projects include advice on mineral development strategies, audits of ore reserves and appraisals on mineral properties primarily to mining companies. Our projects tend to be short term, generally less than one year, and are typically sole sourced to us based on the reputation of our president. Other companies that provide similar services include local and regional mineral consulting firms.

Our competition for the Internet Information Portal is other websites that provide gold and other precious metal information to the interested public.

## ITEM 2.

### DESCRIPTION OF PROPERTY.

#### I. FACILITIES.

Itronics leases approximately 3,000 square feet of office space at 6490 South McCarran Blvd., Building C-23, Reno, Nevada. IMI leases approximately 2,000 square feet of warehouse space in Reno, Nevada. This space is being used for

supply storage.

IMI owns a 35,000 square foot manufacturing facility in Reno-Stead, Nevada. The building contains all the equipment used for treating the used photochemicals, preparing the recovered silver for sale, and manufacturing the GOLD n GRO fertilizer products.

W&W leases approximately 2,500 square feet of office space in Reno, Nevada. This office was closed in May 2005 and the lease will be discontinued.

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## II. EQUIPMENT.

The equipment being used in the recycling process is proprietary information. However, the plant for processing liquid photochemicals is a fairly typical chemical process facility consisting of appropriate arrangement of tanks and pumps. Solids produced by processing are recovered by filtration.

The refining operation consists of a material handling section, solids roasting, and a melting section. The equipment arrangements are proprietary, but the main items are pumps, tanks, filtration equipment, drying ovens, and the melting furnaces.

The new facility is sized to process up to 100,000 un-concentrated gallons of used photochemicals per month and to manufacture up to 200,000 gallons per month of liquid fertilizer. Refinery capacity will be expanded as needed to produce up to 50,000 ounces of silver per month.

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## ITEM 3.

### LEGAL PROCEEDINGS.

We may become involved in a lawsuit or legal proceeding at any time in the ordinary course of business. Litigation is subject to inherent uncertainties, and an unexpected adverse result may arise that may adversely affect our business. Certain lawsuits have been filed against us for collection of funds due that are delinquent, as described below. We are currently not aware of any litigation pending or threatened for any reason other than collection of funds due and already recorded. We are not aware of any additional legal proceeding or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

As of December 31, 2004 total recorded liabilities of \$786,471 including accrued interest to December 31, 2004, were subject to a total of 15 separate lawsuits for the collection of the funds due. These include 12 leases totaling \$626,372 (reflected in Current Maturities of Capital Lease Obligations) plus \$20,260 in additional interest (reflected in Accrued Interest) and three trade payables totaling \$131,286 (reflected in Accounts Payable) plus \$8,553 in additional interest (reflected in Accrued Interest). The leases are individually secured by specified equipment.

The accrued interest noted above was recorded based on our assessment of additional amounts we believe is probable and is related to three cases originally seeking \$251,522; the creditors have received judgments in these cases. We will continue to accrue interest until these cases are settled or paid in full.



We estimate an additional \$58,500 interest may be reasonably possible on other cases; however, we have not accrued this amount because we do not believe it is probable to be incurred. This estimate is related to six cases. In one case, there is a negotiated payment agreement with a remaining balance of approximately \$19,500. Our last payment was made in December 2004 and no contact or other collection action has been taken since then. A second case, claiming \$35,210, was filed in March 2003. No contact or other collection action has taken place since then. A third case, seeking \$171,853, is being actively negotiated by legal counsel and a settlement offer to pay the balance over approximately 46 months has been received. The remaining three cases, seeking a total of \$181,672, are being actively negotiated

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with a local law firm. It has been our experience that if we are able to pay an account in full, the creditor will accept a discount, in some cases a substantial discount, to get the case settled. In the event we have not been able to fully pay a claim, creditors have been willing to accept extended payment terms.

We have a total of six cases, that originally sought \$325,345, that we deem to have a remote possibility of incurring an additional unrecorded loss. We have negotiated payment agreements on these cases and, as of December 31, 2004, the recorded liability for these cases was \$122,313. Three of the cases are paid current under the settlements agreements and three are delinquent, but no further collection action has been taken by the lenders.

As of December 31, 2004 our subsidiaries were delinquent on approximately \$206,200 in federal payroll taxes. These amounts are included Accrued expenses in the Balance Sheet. We engaged a consultant to assist in working with the IRS to formulate a payment plan. A plan was negotiated to pay specified portions of the liability on or before January 31, 2005 and on the fifteenth of each month beginning March 15, 2005 until paid off on May 15, 2005. We made the required payments in January and March 2005, and paid a total of \$115,586, but did not make the subsequent payments as they became due. We received notice of intent to levy on the subsidiaries IMI and ICI for a total amount due of \$93,273. The notices were dated May 12, 2005. The IRS also filed federal tax liens for the amounts due.

Successful settlement of the above claims is dependent on future financing.

#### ITEM 4.

##### SUBMISSION OF MATTERS TO A VOTE OF ITS SECURITY HOLDERS.

None.

## PART II

#### ITEM 5.

##### MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a). Market Information. The Company's securities are traded on the over-the-counter market under the symbol ITRO.OB, and quoted in the National Quotation Bureau, Inc.'s "pink sheets" and on the NASD Electronic Bulletin Board. In 2003 the Company's stock began trading on the Frankfurt, Germany Stock Exchange under the symbol ITG.

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In March 2004 the Company's stock began trading on the Berlin Bremen Stock Exchange (Germany) under the symbol ITG.

The following table sets forth the high and low bid prices for the Company's common stock for each quarter for 2003, 2004, and through March 31, 2005.

	<u>High Bid</u>	<u>Low Bid</u>
3/31/03	\$0.16	\$0.09
6/30/03	\$0.14	\$0.08
9/30/03	\$0.23	\$0.11
12/31/03	\$0.17	\$0.11
3/31/04	\$0.22	\$0.14
6/30/04	\$0.17	\$0.10
9/30/04	\$0.10	\$0.06
12/31/04	\$0.08	\$0.05
3/31/05	\$0.13	\$0.05

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These quotations reflect inter-dealer prices without retail markup, markdown, or commissions, and may not represent actual transactions.

(b) On December 31, 2004 the number of record holders of the Common Shares was approximately 1,000.

(c) Dividends.

The Company has paid no dividends.

Recent Sales of Unregistered Securities

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Following is a summary of unregistered securities issued during the three months ended December 31, 2004.

	Shares	Value
	<u>Issued</u>	<u>Received</u>
Warrant exercises for cash	500,000	\$ 40,000
Conversion of notes payable and accrued interest	7,757,236	798,094

Private Placement for cash	3,300,000	165,000
Consultant labor services	550,000	38,550
Interest on employee salary in arrears	141,515	11,787
Director fees	2,500	200
	12,251,251	\$1,053,631

During the fourth quarter of 2004, we issued an aggregate of 3,300,000 shares of common stock to eight accredited investors at \$0.05 per share for a total of \$165,000. In addition, we issued to these investors three year warrants to purchase an aggregate of 1,650,000 shares of common stock at an exercise price of \$0.075 per share during the first year, \$0.15 per share during the second year, and \$0.225 per share during the third year.

During the fourth quarter of 2004, we issued an aggregate of 7,757,236 shares of common stock to four accredited investors who converted \$798,094 in convertible promissory notes, including principal and accrued interest at conversion prices ranging from \$0.10 to \$0.15 per share.

In October 2004, we issued an aggregate of 250,000 shares of common stock to John W. Whitney, our President, at \$0.08 per share for a total of \$20,000 upon the exercise of a warrant for cash.

In October 2004, we issued an aggregate of 200,000 shares of common stock valued at \$13,700 to Sussex Avenue Partners LLC for professional consulting services performed on our behalf.

In November 2004, we issued an aggregate of 350,000 shares of common stock valued at \$24,850 to Ken Weiner for professional consulting services performed on our behalf.

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In November 2004, we issued an aggregate of 2,500 shares of common stock valued at \$200 to John W. Whitney, our President, as compensation for services performed on our behalf in his capacity as a director of our company for the third quarter of 2004.

In November 2004, we issued an aggregate of 141,515 shares of common stock valued at \$11,787 to John W. Whitney, our President, for accrued interest on his unpaid salary. Interest is paid at 12% per annum and the share price is calculated monthly using the weighted average of the closing bid prices.

In November 2004, we issued an aggregate of 250,000 shares of common stock to John W. Whitney, our President, at \$0.08 per share for a total of \$20,000 upon the exercise of a warrant for cash.

In 2005 we issued an aggregate of 650,000 shares of common stock to three accredited investors at \$0.05 per share for a total of \$32,500 received in December 2004. In addition, we issued to these investors three year warrants to purchase an aggregate of 325,000 shares of common stock at an exercise price of \$0.075 per share during the first year, \$0.15 per share during the second year, and \$0.225 per share during the third year.

In January 2005, we issued an aggregate of 2,400,000 shares of common stock at \$0.05 per share to John W. Whitney, our President, for a total of \$120,000. Mr. Whitney converted short term loans in December 2004. In addition, in December 2004 we issued to Mr. Whitney warrants to purchase an aggregate of 1,200,000 shares of common stock at an exercise price of \$0.075 per share during the first year, \$0.15 per share during the second year, and \$0.225 per

share during the third year.

In January 2005, we issued an aggregate of 625,000 shares of common stock to John W. Whitney, our President, at \$0.08 per share for a total of \$50,000 upon the exercise of a warrant. Mr. Whitney exercised the warrant by converting \$50,000 in short term loans into common stock in December 2004.

During the year ended December 31, 2004, the accrued interest on the 2000 through 2002 Series Convertible Promissory Notes resulted in our issuance of additional options to purchase an aggregate of 745,541 shares of restricted common stock. The options are exercisable at prices ranging from \$0.10 to \$1.18.

In February 2005, we issued an aggregate of 2,500 shares of common stock valued at \$175 to John W. Whitney, our President, as compensation for services performed on our behalf in his capacity as a director of our company for the fourth quarter of 2004.

During the fourth quarter of 2004, the following shares of common stock were earned by the following management employees for accrued interest on their unpaid salaries. The shares are to be issued in 2005. Interest is paid at 12% per annum and the share price is calculated monthly using the weighted average of the closing bid prices.

John W. Whitney, President	191,864 shares valued at \$12,726
Michael C. Horsley, Controller	57,058 shares valued at \$3,780
Duane H. Rasmussen, Vice President	133,268 shares valued at \$8,835

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During the fourth quarter of 2004, an aggregate of 6,352 shares of common stock, valued at \$420, was earned by one employee for accrued interest on his unpaid salary. The shares are to be issued in 2005. Interest is paid at 12% per annum and the share price is calculated monthly using the weighted average of the closing bid prices.

We issued options to purchase an aggregate of 9,000 shares of common stock to Michael C. Horsley, our Controller on November 1, 2004 as compensation for services performed on behalf of our company. The options are exercisable at \$0.15 per share and expire three years after grant.

Four other employees were granted options to purchase an aggregate of 21,000 shares of common stock November 1, 2004 as compensation for services performed on behalf of our company. The options are exercisable at \$0.15 per share and expire in three years from grant.

Unpaid salary due two management employees in the amount of \$39,200 is to be paid with an aggregate of 411,111 shares of common stock. These shares were earned as part of the employee savings plan during the period July 1, 2003 through December 31, 2004 and will be issued when sufficient cash is available to pay the required payroll tax withholding. The number of shares are calculated each month for all employees participating in the plan by using the weighted average of the closing bid prices for the respective month. The amounts and related number of shares earned by quarter for each of the employees follows:

<u>Duane H. Rasmussen, Vice President</u>	<u>Amount</u>	<u>Shares</u>
3 <sup>rd</sup> Quarter 2004	\$6,000	72,036
4 <sup>th</sup> Quarter 2004	6,000	90,373

\$12,000    162,409

<u>Michael C. Horsley, Controller</u>	<u>Amount</u>	<u>Shares</u>
3 <sup>rd</sup> Quarter 2003	\$3,200	18,677
4 <sup>th</sup> Quarter 2003	4,800	32,572
1 <sup>st</sup> Quarter 2004	4,800	26,264
2 <sup>nd</sup> Quarter 2004	4,800	41,263
3 <sup>rd</sup> Quarter 2004	4,800	57,629
4 <sup>th</sup> Quarter 2004	4,800	72,297
	\$27,200	248,702

All of the above offerings and sales were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, business associates of Itronics Inc. or executive officers of Itronics Inc., and transfer was restricted by Itronics Inc. in accordance with the requirements of the Securities Act of 1933. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

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Except as expressly set forth above, the individuals and entities to whom we issued securities as indicated in this section of the registration statement are unaffiliated with us.

#### ITEM 6.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Some of the information in this report contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. You should read statements that contain these words carefully because they:

- discuss our future expectations;
- contain projections of our future results of operations or of our financial condition; and
- state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements.

#### General Overview

We are the inventor and developer of the "Beneficial Use Photochemical, Silver, and Water Recycling" technology that produces environmentally beneficial GOLD'n GRO fertilizers and silver bullion.

We are a process technology company that has developed what we believe is a unique technology for photochemical recycling. We, through our subsidiary, Itronics Metallurgical, Inc., extract more than 99% of the silver and virtually all of the other toxic heavy metals from used photoliquids and use this "Beneficial Use Photochemical, Silver and Water Recycling" technology to produce environmentally beneficial chelated multinutrient liquid fertilizer products sold under the trademark GOLD n GRO, animal repellent/fertilizer products to be sold under the trademark GOLD n GRO Guardian, and silver bullion. We also provide process planning and technical services to the mining industry.

Our fertilizer is sold primarily through Western Farm Service, Inc. (WFS), a wholly owned subsidiary of Agrium, Inc. (a NYSE company). Our distribution agreement with WFS gives them exclusive rights to sell our fertilizer products in Arizona, California, Hawaii, Idaho, Oregon, and Washington, which represented 97% of our fertilizer sales in 2004 and 93% of our sales in 2003. This agreement is discussed in more detail in the Business section. Our plans to increase GOLD n GRO fertilizer sales, including plans to expand the product line, expand to more geographical regions in the U.S., enter new market segments, and add new distributors, are also discussed in more detail in the Business section.

We obtain a significant portion of our raw materials to manufacture fertilizer from used photoliquids. A byproduct of our fertilizer manufacturing process is silver. We sell three types of silver: silver bullion, 5 troy ounce 99.9% pure Silver Nevada Miner numismatic bars,

and recycled film containing silver. Our processed silver bullion is sold to a commercial refiner under standard industry terms, which include pricing the silver based on published market quotes and applicable service fees. The Silver Nevada Miner bars sell to the consumer collectibles market. Recycled film is primarily X-ray film from hospitals that we sort and sell to a commercial film recycler; we are paid based on the value of contained silver, 45 to 60 days after shipment.

Our fertilizer manufacturing process uses several commodities. We separate silver from photochemicals, then we add zinc and other raw materials to the demetallized liquid to make our fertilizer formulations. Prices for fertilizer raw materials are generally increasing over time. We maintain limited quantities of these commodities and purchase them on a just in time basis. When prices of these commodities rise, we pass this cost on to our customers, so commodity price fluctuations have not had a significant impact on our results of operations.

The majority of our raw material inventory is comprised of silver in photochemical solutions. The table below indicates that silver prices were relatively stable in 2001 to 2003, then rose dramatically in 2004 and 2005. We regularly compare our weighted average cost of silver per ounce to current market prices; historically we have not had impairment losses. The average London spot price of silver is shown as follows:

	<u>Year</u>					<u>6 mos June 30,</u>
<u>Year</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	
Silver	\$4.36	\$4.60	\$4.88	\$6.67	\$7.06	

We also provide consulting services to the mining industry. To supplement this business line, we recently launched an internet website which we plan to maintain with existing professional staff. Our plans with regard to the website are discussed more fully in the Growth Plan and Implementation section below.

#### Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires that management make a number of assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements and accompanying notes. Management bases its estimates on historical information and assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and circumstances that may impact the Company in the future, actual results may differ from these estimates.

Our critical accounting policies are those that affect our financial statements materially and involve a significant level of judgment by management.

#### Revenue Recognition.

We operate two divisions: Photochemical Fertilizer and Technical Services. Within the fertilizer division, revenue is derived from three sources (1) sales of fertilizer, (2) photochemical recycling including pick up and transportation of photochemical waste and sales

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of Photochemical Silver Concentrators, and (3) sales of silver. Revenue from the sale of fertilizer, Photochemical Silver Concentrators, and silver is recognized in income when the goods are shipped. Returns since inception have been nominal; therefore, the Company has not established a returns allowance. Photochemical recycling fees are recognized in income after the used photochemical solution is removed from our customer sites and transported to our manufacturing facility.

Within the technical services division, revenue is derived from consulting services. Revenue is recognized in income as services are rendered. When the Company is responsible for subcontractor services and related expenses, such pass-through costs are included in both revenue and cost of revenues. Markups, if any, are included in revenues.

#### Inventory.

Inventory is carried on the balance sheet at the lower of cost or market value using the average cost valuation method. Because a large part of our inventory is silver contained in used photochemical solution and the market value of silver changes daily on the commodities market, we regularly monitor the carrying value of our silver in solution inventory to ensure it is carried at the lower of cost or its current market value. If silver on the open market were less than our carrying value, then we would write down the carrying value of our inventory by reducing recorded inventory and increasing cost of sales. If the amount of the write down were material, we would separately include the item in our statement of operations.

#### Recent Accounting Pronouncements

On December 16, 2004 the FASB issued SFAS No. 123R, "Share-Based Payment," which is an amendment to SFAS No. 123, "Accounting for Stock-Based Compensation." This new standard eliminates the ability to account for share-based compensation transactions using Accounting Principles Board, or APB, Opinion No. 25, "Accounting for

Stock Issued to Employees," and generally requires such transactions be accounted for using a fair-value-based method and the resulting cost recognized in our financial statements. This new standard is effective for awards that are granted, modified or settled in cash in interim and annual periods beginning after June 15, 2005, December 15, 2005 for small business issuers. In addition, this statement will apply to unvested options granted prior to the effective date. The Company will adopt this new standard effective for the first fiscal quarter of 2006 and it has not yet determined what impact this standard will have on its financial position or results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs: an amendment of ARB No. 43, Chapter 4," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not believe the provisions of SFAS No. 151, when applied, will have a material impact on our financial position or results of operations."

#### Results of Operations

The primary factors affecting our revenue fluctuation between periods in fertilizer sales are seasonality and weather conditions. Sales are greater during the growing season, and are negatively affected by cold winter weather and rainy weather. In most of our markets there are two primary fertilization seasons, spring and fall, with spring being the stronger of the two.

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The spring season generally starts in March and goes through June and the fall season generally starts in September and runs into December. Adverse weather conditions delay the start of, or can significantly shorten, a growing season. Farmers do not fertilize their crops in rainy or cold weather; therefore they do not buy fertilizer; consequently, our distributor does not buy fertilizer from us. Additionally, we have experienced varying lengths of time for acceptance in the market of our new fertilizer products; farmers are inherently very slow to accept new products so market penetration time can be lengthy. Our short history in the fertilizer market demonstrates that new products, if successful, obtain meaningful sales typically between two and four years after product launch.

The primary factors affecting the revenue fluctuation between periods in photochemical recycling revenue are our need to acquire this material for use in fertilizer production and our ability to store this material until it is needed. We have an unusual business model in that we need to sell our photowaste management services in order to acquire a raw material necessary for the production of our fertilizer products, as opposed to purchasing it from suppliers as most businesses do. Our management goal is to combine the incoming volume of photowastes with existing stored photowastes to meet the peaks in demand for fertilizer products. In the liquid fertilizer industry, the practice of both our distributor and the ultimate consumer, the farmer, is to purchase fertilizer on a just in time basis, to minimize their storage requirements and related costs. For this same reason, we process our photowastes as needed for fertilizer production. Because of this, the need to seek new customers to expand the service side of our business is driven by fertilizer sales. There is also a seasonal factor in the consumer photography portion of our photowaste management services business, with the Christmas holiday season being the busiest, followed by the early summer, school graduation period. At present volumes of photowaste, this is not a significant factor, but it could become one as we grow.

The primary factor affecting the revenue fluctuation between periods in sales of silver bullion is our dependence on the timing of processing used photochemical wastes, which is primarily dependent on fertilizer manufacturing and related sales. Our silver in solution is separated from the photowaste materials during processing of the photowastes for use in fertilizer manufacturing. As described above, the timing of processing of photowastes is dependent on fertilizer sales, therefore sales of silver bullion is also dependent on the level of fertilizer sales. Market price changes will also contribute to silver revenue fluctuations by increasing or decreasing revenues depending on whether the silver price increases or decreases.



## Comparison of the Year Ended December 31, 2004 with the Year Ended December 31, 2003

We reported consolidated revenues of \$1,720,049 for the year ended December 31, 2004, compared to \$1,268,787 for the prior year, an increase of 36%. Revenues for the Photochemical Fertilizer segment increased by \$486,016, or 52%. Revenues from the Mining Technical Services segment declined \$34,754, or 10%. We reported a gross profit of \$32,296 for the year ended December 31, 2004, compared to a gross loss of \$159,853 for the year ended December 31, 2003, an improvement of \$192,149. The consolidated net loss for 2004 was \$2,839,872 or \$0.020 per share compared to a 2003 loss of \$2,752,291 or \$0.026 per share.

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To provide a more complete understanding of the factors contributing to the changes in revenues, operating expenses and the resultant operating loss and net loss, the discussion presented below is separated into our two operating segments.

PHOTOCHEMICAL FERTILIZER

	<u>Year Ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Revenue		
Fertilizer	\$ 1,019,789	\$ 554,320
Photochemical recycling	\$ 301,609	\$ 327,306
Silver	\$ 101,531	\$ 55,287
Total Segment Revenue	\$ 1,422,929	\$ 936,913
Gross profit (loss)	\$ (34,687)	\$ (182,918)
Operating income (loss)	\$(2,024,481)	\$(1,834,621)
Net income (loss) before taxes	\$(2,626,694)	\$(2,849,442)

Revenues for the Photochemical Fertilizer segment totaled \$1,422,900 in 2004, compared to \$936,900 in 2003, an increase of \$486,000, or 52%.

Fertilizer sales were \$1,019,800 (1,829 tons) and \$554,300 (944 tons) for 2004 and 2003, respectively. This represents an increase of 84% in dollars and 94% in tonnage. Our fertilizer product sales are presently grouped into two primary categories, Chelated Liquid Micro-nutrients and Chelated Liquid Multi-nutrients. The Micro-nutrient category includes five products, which includes the two zinc products, GOLD n GRO 9-0-1+7% Zinc and GOLD n GRO 9-0-2+3% Zinc. These zinc products were introduced in 2001 and 2004, respectively. The Multi-nutrient category has a total of six products, which includes the GOLD n GRO 4-0-9+6.6% Sulphur Base Liquid, which was introduced in 2003. Sales of Micro-nutrients were \$873,600 (1,399 tons) and \$474,500 (808 tons) for 2004 and 2003, respectively, an increase of 84% in dollars and 73% in tonnage. Sales of the Multi-nutrients were \$125,700 (430 tons) and \$47,800 (136 tons) for 2004 and 2003, respectively, an increase of 163% in dollars and an increase of 216% in tonnage. The dollar and tonnage increases are primarily attributable to increased bulk sales of the GOLD n GRO 9-0-1+7% Zinc, but meaningful sales were also achieved with the GOLD n GRO 9-0-2+3% Zinc and the GOLD n GRO 4-0-9+6.6% Sulphur. Sales tonnage rose faster than sales dollars in spite of a modest price increase in the second quarter of 2004 because of the increase in tonnage of the Chelated Liquid Multi-nutrients which sell at lower prices. The overall increase in sales tonnage is primarily due to the acceptance of our products by more of WFS retail branches due to successful field results over the past three years, and to a lesser extent on the introduction of the two new products.

Photochemical recycling revenue was \$301,600 and \$327,300 in 2004 and 2003, respectively, a decrease of 8%. The recycling service fee portion of this revenue category increased \$46,200. The increase is attributable to the rapid

growth of Shutterfly, Inc., a digital imaging and processing company. This increase was offset by a reduction in sales of Photochemical Silver Concentrators. In 2004 we sold one Concentrator for \$20,000 compared to two sold in 2003 for a total of \$91,900. Photochemical Silver Concentrators have widely varying prices, depending on

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the needs of the customer. Consequently, sales volumes and amounts are not consistent from period to period.

In December 2004, photochemical recycling services provided to Shutterfly, Inc. were discontinued by mutual agreement; the photochemical volume from this customer had been growing so rapidly that the supply was exceeding our need for the chemicals in fertilizer manufacturing, resulting in storage costs and plant inefficiencies. Shutterfly accounted for \$201,300 or 59% of 2004 photochemical recycling revenue. Due to the nature of our business, our photochemical recycling customers supply the used photochemical raw material needed for fertilizer manufacturing. Shutterfly supplied 65% of this raw material received in 2004. Based on 2004 usage of used photochemicals to manufacture fertilizer, our other customers supplied an overall 56% of the photochemicals needed to produce the fertilizer manufactured in 2004; so if we are unable to find new photowaste customers to replace Shutterfly, future fertilizer sales would be limited to approximately that level of 2004 fertilizer sales once our inventory of used photochemicals is depleted. It should be noted that this is only a rough estimate of future fertilizer production levels as we receive different types of photochemical raw materials from different customers, which are used in varying amounts in the fertilizer products, each fertilizer product uses a varying proportion of used photochemicals, and as we continue to improve our fertilizer products, the proportion of used photochemical in each product may change.

We previously developed statistical information that more than 100 million gallons of used liquid silver-bearing photochemicals are generated in the United States annually. Using conversion ratios developed for the GOLD'n GRO fertilizers, this is enough volume to support manufacture and sale of more than 200 million gallons of liquid fertilizer products, or about 1 million tons, so we believe the raw material is available in the market to meet future manufacturing needs. We estimate that current supplies of photochemical raw material in storage at our manufacturing plant, combined with ongoing receipts of material from other existing customers, is sufficient to meet fertilizer production needs for the next twelve to eighteen months, depending on fertilizer sales volumes.

We are in contact with both small and large photochemical generators, and are actively marketing Photochemical Silver Concentrators. The concentrators allow us to receive the raw materials needed to manufacture our fertilizer in much smaller volume, resulting in a higher content of chemicals desirable for fertilizer manufacturing, reducing the storage problems we were facing. The Photochemical Silver Concentrators are manufactured under contract by a third party to meet the specifications of each customer. Concentrators typically sell for \$20,000 to \$200,000, so part of the loss in photochemical recycling service revenues is expected to be offset by growth in Photochemical Silver Concentrator sales in future years. By using a third party manufacturer to produce the Concentrators, we are outsourcing the fixed and variable costs that are associated with assembling them. Primarily, these are the facilities space needed to assemble the various parts and the specialized equipment and labor required for the assembly. Generally, we have self financed the production of Concentrators sold in the past. In the future, we anticipate that non-governmental customers will advance the funds necessary to acquire the parts and labor needed to produce the Concentrators. For our most recent governmental customer, we borrowed the funds needed to fulfill the contract from an unrelated individual. We anticipate using similar arrangements for future Concentrators sold to governmental customers.

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During the first quarter of 2005 we received an order for two Concentrators and requests for proposal from several other potential customers that could lead to more than \$500,000 in sales of the Photochemical Silver Concentrators. This marks the beginning of a shift in market focus from obtaining the majority of photochemical raw materials by

picking up the materials by truck directly from the customer's location to obtaining the majority of our photochemical raw materials by receiving concentrated material through the interstate commercial trucking system.

Silver revenue was \$101,500 and \$55,300 for 2004 and 2003, respectively, an increase of \$46,200, or 84%. Of this increase, \$18,500 was from the sale of Silver Nevada Miner silver bars and \$16,700 was from the sale of silver in recycled film.

Combined cost of sales and operating expenses for the segment amounted to \$3,447,400 in 2004, compared to \$2,771,500 in 2003, a 24% increase. Cost of sales increased approximately \$337,800 due primarily to a \$265,400 increase in direct material costs related to increased sales and \$61,000 in payroll and related costs. The changes in revenues and cost of sales resulted in a gross loss of \$34,700 in 2004, compared to \$182,900 in 2003, an improvement of \$148,200. Operating costs increased \$338,100 due primarily to increases of \$228,800 in sales and marketing and \$60,000 in general and administrative costs. Sales and marketing increased due to a combination of the addition of a fertilizer sales representative in early 2004 and increased corporate marketing. General and administrative expenses increased due to a \$98,000 prior year credit for expired options.

These changes in revenues and operating expenses resulted in a segment operating loss of \$2,024,500 in 2004, compared to \$1,834,600 in 2003, an increased loss of \$189,900 or 10%.

Other income (expense) decreased to a net expense of \$602,200 for 2004, compared to a net expense of \$1,014,800 in 2003, an improvement of \$412,600. Interest expense decreased \$175,000 due to the conversion into common stock of convertible promissory notes. Other income of \$187,800 was due to debt forgiveness income from the write off of long term leases.

The changes in operating loss and other expenses resulted in a segment net loss before taxes of \$2,626,700 for 2004, compared to a net loss of \$2,849,400 for 2003, a decreased loss of \$222,700 or 8%.

#### MINING TECHNICAL SERVICES

	<u>Year Ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Revenue	\$ 297,120	\$ 331,874
Gross profit (loss)	\$ 66,983	\$ 23,065
Operating income (Loss)	\$(382,145)	\$(359,324)
Net income (loss) before taxes	\$(213,178)	\$ 97,151

Mining technical services revenue totaled \$297,100 for 2004 compared to \$331,900 for 2003, a decrease of 10%. Included in these revenue figures are pass-through expenses of \$108,300 and \$118,700 for 2004 and 2003, respectively. Excluding these amounts, revenues amounted to \$188,900 and \$213,100 for 2004 and 2003, respectively, a decrease of 11%. The number of clients we serve and the amount of work needed by those clients varies from period to period.

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On March 1, 2005 the technical services contract with Golden Phoenix Minerals, Inc. expired and was not renewed. Excluding pass through revenue, revenue from this client was \$124,300 for 2004 and \$15,000 for the two months ended February 2005. In response, in May 2005 we closed the satellite office for technical services and reduced staff the equivalent of approximately three people.

Combined cost of sales and operating expenses totaled \$679,300 for 2004 compared to \$691,200 for 2003, a nominal decrease. Included in these operating expense figures are pass-through expenses of \$108,300 and \$118,700 for 2004 and 2003, respectively. Excluding these amounts, combined cost of sales and operating expenses amounted to \$571,000 and \$572,500 for 2004 and 2003, respectively, a nominal decrease. Included in operating expense is \$74,200 in research and development costs that were not incurred in the prior year. This expense is related to the development of the insidemetals.com website. The majority of this expense is an allocation of personnel costs, which was offset by an \$81,000 decrease in payroll and related costs that are included in cost of sales expenses.

The above changes in revenues and operating expenses resulted in a segment operating loss of \$382,100 for 2004, compared to \$359,300 for 2003, an increased operating loss of \$22,800 or 6%.

Other income (expense) decreased to \$169,000 for 2004, compared to \$456,500 in 2003, a decline of \$287,500. The decline is due to decreased gain on sale of GPXM shares and other marketable securities.

The changes in operating loss and other income resulted in a segment net loss before taxes of \$213,200 for 2004, compared to a net income of \$97,200 for 2003, a decrease of \$310,300.

#### Changes in Financial Condition; Capitalization

Cash amounted to \$5,200 as of December 31, 2004 compared to \$34,500 as of December 31, 2003. Net cash used by operations was \$1,417,900 in 2004 compared to \$1,626,500 in 2003. Operating resources utilized to finance the 2004 loss of \$2,839,900 include approximately \$681,900 in expenses paid with our common stock. Cash amounting to approximately \$56,800 was invested in property and equipment in 2004, primarily for equipment in the manufacturing plant. Sales of Golden Phoenix Minerals, Inc. stock and other marketable securities provided \$356,100 in cash from investing activities. Financing sources of cash in 2004 were \$843,500 in proceeds from the private placement of restricted common stock, \$235,000 from the exercise of warrants, and \$150,000 from short term loans from an officer/stockholder.

Total assets decreased from \$4,440,500 at December 31, 2003 to \$4,147,900 at December 31, 2004. Current assets decreased \$88,300, net property and equipment decreased \$38,900, and other assets decreased \$165,300. The primary changes in current assets were a decrease in marketable securities of \$387,100 due to the sale of GPXM and other stock, an increase in accounts receivable of \$92,400 due to a one-time billing on the GPXM consulting contract, an increase of \$146,200 in inventory due primarily to the build-up of unprocessed silver in photochemical solutions, and an increase in prepaid expenses of \$89,400 due to corporate marketing contracts. We are actively selling our GPXM shares to assist with our working capital needs. Our investment in GPXM stock decreased to a total value of \$26,200 at December 31, 2004, all of

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which is classified in current assets.

Total liabilities decreased from \$8,142,200 at December 31, 2003 to \$6,712,200 at December 31, 2004, a decrease of \$1,430,000. Of this amount, current liabilities decreased \$510,600 and long-term liabilities decreased \$919,400. The overall decrease in liabilities is due primarily to the conversion of \$1,962,200 in convertible promissory notes and accrued interest into restricted common stock. Current liabilities decreased primarily due to a net reduction in convertible promissory notes of \$665,300. This reduction was partially offset by increases in accounts payable of \$91,800, accrued management salaries of \$170,900, and accrued expenses of \$185,400. Nearly all of the increase in accrued expenses is attributable to delinquent federal and state payroll taxes. Subsequent to December 31, 2004 \$115,600 of the federal payroll taxes were paid.

The above discussion and the discussion of various legal proceedings elsewhere in this prospectus does not succinctly summarize the progress that we have made in implementing our business plan and improving our financial condition over the last several years. However, there has been significant progress. First, in 2004 fertilizer sales exceeded \$1 million for the first time, compared to sales in the \$500,000 range for each of the two previous years. This resulted in a gross loss for the photochemical fertilizer segment of \$34,700, which was a \$148,200 improvement over 2003 and a \$217,100 improvement over 2002. This demonstrates one of the fundamental concepts in the business plan, that a large part of our operating cost structure is fixed or semi-fixed, which means that as sales rise, many of the costs will not rise proportionally, resulting in gross profits that will contribute to paying general overhead costs. This improvement in the photochemical fertilizer segment, combined with a gross profit from the technical services segment, resulted in an overall gross profit for the year, which is the first time that this was accomplished since before the move to the Stead manufacturing facility in 2000.

Addressing our financial condition, improvements have been made there as well. The stockholders' deficit, \$4,587,900 at December 31, 2002, has been reduced to a deficit of \$2,564,300 at December 31, 2004, an improvement of \$2,023,600. This has been achieved by the conversion of approximately \$3.4 million in convertible notes and accrued interest into common stock. One significant area of difficulty for us has been meeting the payments on capital lease obligations. However, the capital lease obligation at December 31, 2002 of \$1,193,900 has been reduced to \$807,700 at December 31, 2004, a reduction of \$386,200. This includes the write off five leases as debt forgiveness income in 2004 of \$187,800. We expect to make further meaningful progress expanding sales and reducing debt in 2005.

#### Working Capital/Liquidity

During the year ended December 31, 2004, the working capital deficit was reduced by \$422,200 to a deficit balance of \$3,229,500. \$665,300 of the improved working capital is due to a net reduction in convertible notes payable and accrued interest due to the conversion of convertible promissory notes into restricted common stock. This improvement was partially offset by increases in various current liabilities as discussed above. The Company has had limited cash liquidity since the third quarter of 2000. The Company has sought and obtained the funding described above, which has not been sufficient to maintain all obligations on a current basis. The cash shortage is a result of two factors. First, fertilizer sales in 2004 and prior

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years did not expand to the extent anticipated, so operating losses were not reduced as much as expected. Second, the \$15 million equity line of credit agreement with Swartz Private Equities, LLC (Swartz) was not available between October 2001 and May 2002 due to a Securities and Exchange Commission rule change that necessitated renegotiating the contract with Swartz and filing a new registration statement which was filed and became effective on April 30, 2002. The Swartz agreement expired on February 27, 2004. During the years ended December 31, 2004 and 2003, \$0 and \$119,600, respectively, were received under the Swartz agreement. The Swartz equity funding was not able to function to meet the Company's ongoing working capital needs, so private placements of stock with attached three year warrants have been undertaken since the fourth quarter of 2002. \$843,500 and \$703,500 was raised from private placements during 2004 and 2003, respectively. In addition, the Company sold GPXM and other shares during the year ended December 31, 2004, raising a total of \$356,100 and \$235,000 was received from the exercise of warrants. For 2003, sale of GPXM shares raised \$786,400 and \$185,800 was received from the exercise of warrants. Subsequent to December 31, 2004 the Company has received \$560,000 from the private placement and \$6,000 from the sale of GPXM stock.

The Company is actively working to establish a longer term financing plan that will identify capital sources for the Company's financing needs over a two to three year period. Once this plan is established, needs for financing will be adjusted and the plan will be extended annually.

#### ITEM 7.

FINANCIAL STATEMENTS

The response to this Item is submitted under Item 13.

ITEM 8.

CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON

ACCOUNTING AND FINANCIAL DISCLOSURE

On November 7, 2003 Kafoury, Armstrong & Co. ("Kafoury") resigned as our independent auditors because Kafoury had not registered with the Public Company Accounting Oversight Board (PCAOB) and was discontinuing its SEC practice.

For each of the two fiscal years prior to Kafoury's resignation, the certifying accountant's report on our financial statements was modified as to an uncertainty. The uncertainty in each of the two years was a substantial doubt about our ability to continue as a going concern.

During the two fiscal years ended December 31, 2002 and subsequent interim periods through November 7, 2003, there have been no disagreements between us and Kafoury regarding accounting principles or practices, financial statement disclosure, or auditing scope or procedures and Kafoury has not advised us of any of the matters identified in paragraph (a)(1)(v) of Item 304 of Regulation S-K.

On November 7, 2003 we appointed Cacciamatta Accountancy Corporation ("Cacciamatta") of Irvine, California as our independent registered public accounting firm. During the two fiscal years ended December 31, 2002 and through November 7, 2003, we have not consulted Cacciamatta with respect to either (a) the application of accounting principles to a specified transaction,

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either completed or proposed, or the type of audit opinion that might be rendered on our financial statements; or (b) any matter that was either subject of a disagreement (as defined in paragraph 304(a)(1)(iv) or a reportable event (as described in paragraph 304(a)(1)(v) of Item 304 of Regulation S-K).

To our knowledge, there is no accounting or financial disclosure dispute involving any present or former accountant.

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ITEM 8A CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

(b) Changes in internal controls. There was no change in our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting."

PART III

ITEM 9.

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

A. I. Directors and Executive Officers - Summary Information.

The following are the directors and executive officers of the Company:

<u>Name</u>	Age as of <u>12/31/04</u>	<u>Position</u>	<u>Position Held Since</u>
Dr. John W. Whitney	58	President/Treasurer Director	May 1988
Paul H. Durckel	87	Director	September 1995
Howland S. Green	51	Northeast Manager of GOLD n GRO sales Director	April 2005
Gregory S. Skinner	50	Secretary	December 1990
Duane H. Rasmussen	74	Vice President; Vice President and General Manager-IMI	November 1997 May 1994

1) For directors, the term of office is until the next annual meeting of shareholders. For officers, the term of office is until the next annual meeting of the Board of Directors, presently scheduled to be held immediately following the annual meeting of the shareholders.

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II. Narrative Information Concerning the Directors and Executive

Officers of the Company.

John W. Whitney:

In addition to being the President and a Director of the Company, 1988 to present, Dr. Whitney is the President and a Director of each of the operating subsidiaries, Itronics Metallurgical, Inc. and Whitney & Whitney, Inc. Dr. Whitney also serves as the General Manager of American Hydromet, a joint venture.

He received his Ph.D. in Mineral Economics from Pennsylvania State University in 1976, his M.S. in Mineralogy from the University of Nebraska in 1971, and his B.S. in Geology from the University of Nebraska in 1970. Dr. Whitney has served as President of Whitney & Whitney, Inc. since its formation in 1977.

Prior to his serving as W&W full-time president, Dr. Whitney worked as a consultant for the Office of Technology Assessment, U.S. Congress, doing analysis of various Alaskan mineral issues (1977-1978), a consultant for various government agencies, including the office of Mineral Policy Analysis in the U.S. Department of Interior, and the Washington office of the U.S. Bureau of Mines, consulting firms, law firms and mining companies on a variety of mineral planning issues (1976-1977), as a consultant for BKW Associates, Inc. evaluating mining investment opportunities in Mexico and the Philippines (1973-1975), and as a geologist-mineralogist for Humble Oil & Refining Company and GeoTerrex Ltd. (1971-1972).

Dr. Whitney is an internationally recognized consultant in the field of Metal and Material Resource Economics. Dr. Whitney has presented seminars for various clients on Mining Economics, and has taught a three-credit graduate course on International Metal Economics for the University of Arizona's College of Mines. Dr. Whitney is an Honorary Faculty Member of the Academy for Metals and Materials under the seal of the American Society for Metals. Dr. Whitney has made numerous presentations and written a number of publications on various technical subjects within his broad area of expertise. Dr. Whitney is coinventor of the American Hydromet process technology and holds four patents. Dr. Whitney was selected as Nevada's Inventor of the Year for 2000 and became a member of the Inventor's Hall of Fame at the University of Nevada, Reno.

Paul H. Durckel:

Mr. Durckel has served as a Director of the Company since September 1995. He received a pre-legal degree from Stanford University in 1940. He has served various companies involved in fertilizer manufacturing and sales for approximately 30 years. He is presently an Independent Real Estate Salesman for Verus Realty. He served Myers Realty, Inc. in varying capacities, including Broker-Salesman, Consultant, Manager, Vice President of Operations, and Director, from 1987 to 2001. His experience in the fertilizer industry includes Vice President and General Manager and Vice President- Operations for American Plant Food Corp., Executive Assistant to the Chairman for Best Fertilizers Co., Vice President and General Manager for Best Fertilizer of Texas, and Vice President and General Manager for Farm Services Co.

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Howland S. Green

Mr. Green was appointed as our director and as the Northeast Manager of GOLD n GRO Sales in April 2005. He received a B.Sc. degree in plant science and landscape architecture from the University of Rhode Island in 1981. He founded the Holly Ridge Nursery in Kingston, Rhode Island in 1989 and was its owner and President until the business was sold in September 2005. He is the concept creator and a founder of the North American Deer Management Network. Mr. Green researched and developed the Mirrepel and subsequently co-developed the GOLD n GRO Guardian systemic deer and rabbit repellents. Through his ownership of the Holly Ridge Nursery he has gained extensive knowledge of the landscape construction and maintenance and wholesale and retail nursery markets. He has



also served as consultant to "Ask This Old House".

Gregory S. Skinner, Esq.

Mr. Skinner has served as secretary and general counsel of the Company and its subsidiaries since December 1990. He obtained his B.A. degree in Economics from the University of California at Berkeley in 1976. He obtained his J.D. degree from Hastings College of the Law, University of California at San Francisco in 1979. He is licensed to practice law in the states of California and Nevada. He retired from the practice of law on January 1, 2003 and is "of counsel" to the law office of Watson & Rounds, a Professional Corporation (WR). Prior to December 31, 2002 he was a shareholder in Skinner, Watson & Rounds, which had offices located in Reno, Las Vegas, and Incline Village, Nevada. Prior to becoming Secretary of Itronics Inc., Mr. Skinner has provided legal services and advice to Whitney & Whitney, Inc. since 1980.

Duane H. Rasmussen:

Mr. Rasmussen has served as Vice President and General Manager of IMI since May 1994. He became Vice President of the Company in November 1997. He initially joined the Company in 1991 as Assistant Manager and Business Consultant for W&W. He received his B.S. degree in Chemical Engineering from the University of Wisconsin in 1953 and his M.B.A. in Industrial Management in 1955 from the same University. He served as President of Screen Printing Systems, Inc. from 1987 to 1990 and from 1995 to October 1998. Other business experience includes approximately 20 years with Jacobs Engineering Group, Inc. in varying capacities, including Project Manager, Regional Sales Manager, Regional Vice President, and Group Vice President.

**B. AUDIT COMMITTEE**

At present the Company does not have an audit committee and consequently the entire Board serves as the audit committee. The Board presently consists of three members, one of whom is independent. The Company has interviewed several qualified individuals for the position of Audit Committee Financial Expert on the Board of Directors. All have declined to serve, with the primary reason being personal liability issues, especially the perceived view that being the "financial expert" increases the individual's personal exposure over that of being a regular Board member.

**C. CODE OF ETHICS**

The Board of Directors has adopted a Code of Business Conduct and Ethics (Code) that is applicable to the Company's directors, principal executive and financial officer, principal accounting officer or controller, and persons performing similar functions. A copy of the Code

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is included in this report as Exhibit 14. A copy of the Code may be obtained by anyone, without charge, by requesting a copy either by telephoning (775) 689-7696 and asking for investor relations or by e-mailing the Company at [www.itronics.com](http://www.itronics.com). If requesting by e-mail, please indicate a preference of a reply by e-mail or by physical mail.

**ITEM 10.**

**EXECUTIVE COMPENSATION.**

Summary of Cash and Certain Other Compensation

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The following table sets forth information as to the compensation of the Chief Executive Officer and the four most highly compensated officers whose compensation for the year ended December 31, 2004 exceeded \$100,000:

Name and Principal Position	Calendar Year	Annual Compensation		Long Term Compensation
		Salary	Bonus	Securities Underlying Options (#)
Dr. John W. Whitney: President, Treasurer and Director (1) (2)	2004	\$126,150	\$-0-	550,000
	2003	\$126,375	\$-0-	-0-
	2002	\$127,350	\$-0-	3,250,000
Duane H. Rasmussen Vice President, VP and General Manager	2004	\$132,000	\$-0-	425,000
	2003	\$132,000	\$-0-	-0-
	2002	\$132,000	\$-0-	-0-
IMI (3)				

(1) The 2004, 2003 and 2002 salary amounts include \$125,000, for each year, respectively, that were not paid currently. In 2003 Dr. Whitney converted \$260,000 of these amounts into the then existing private placement at \$0.08 per share for a total of 3,250,000 shares plus an equal number of three year warrants. This transaction is under the same terms and conditions as for other investors in the current private placement, consequently, the warrants are treated as non-compensatory. These shares have not yet been issued, pending accumulation of sufficient cash to pay required withheld payroll taxes.

Effective January 1, 1999, Dr. Whitney was granted an option for 1,000,000 restricted common shares at \$0.25 per share, effective July 1, 2002 he was granted an option for 3,000,000 restricted common shares at \$0.30 per share, and effective May 7, 2004 he was granted an option for 550,000 restricted common shares at \$0.15 per share. These options are exercisable at any time until one year after Dr. Whitney leaves the employment of the Company. Effective October 2, 2002 Dr. Whitney was granted a five year option for 250,000 restricted common shares at \$0.20 per share.

(2) The salary amounts listed above include \$1,150, \$1,375, and \$2,350 for 2004, 2003, and 2002, respectively, that represent compensation paid in common stock for service as a director of the Company. The compensation plan for all directors was 2,500 shares per quarter for 2004 and previous years.

(3) The 2004, 2003, and 2002 salary amounts include \$55,000, \$77,000, and \$132,000, respectively, that were not paid currently. In 2003 Mr. Rasmussen converted \$170,000 of these amounts into the then existing private placement at \$0.08 per share for a total of 2,125,000 shares plus an equal number of three year warrants. This transaction is under the same terms

and conditions as for other investors in the current private placement, consequently, the warrants are treated as non-compensatory. These shares have not yet been issued, pending accumulation of sufficient cash to pay required withheld payroll taxes.

Effective May 7, 2004 Mr. Rasmussen was granted a compensatory option for 425,000 restricted common shares at \$0.15 per share. This option is exercisable at any time until one year after Mr. Rasmussen leaves the employment of the Company.

Option Grants in Last Fiscal Year

:

<u>Name</u>	<u>Number of Securities Underlying Options Granted (1)</u>	<u>% of Total Options to Employees in Fiscal Year</u>	<u>Exercise or Base Price</u>	<u>Expiration Date</u>
Dr. John W. Whitney	550,000	33%	\$0.15	One year after employment ends
Duane H. Rasmussen	425,000	25%	\$0.15	One year after employment ends

(1) In addition to the above, Dr Whitney acquired a total of 1,200,000 non- compensatory three year warrants by converting \$120,000 of short term loans into the then existing private placement. All transactions were under the same terms and conditions as for other investors in current private placements and consequently the warrants are treated as non-compensatory.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option

Values

-

Options Exercised

:

<u>Name</u>	<u>Shares Acquired on Exercise (#)</u>	<u>Value Realized</u>
Dr. John W. Whitney		

Non-compensatory (1) 4,750,461 \$ -0-

(1) Dr. Whitney exercised non-compensatory warrants for 4,750,461 shares by paying cash of \$185,008 and converting short term debt totaling \$195,029. Since the warrants were non-compensatory, no realized value is listed above.

Options Unexercised

:

<u>Name</u>	<u>Number of Securities</u>		<u>Value of Unexercised</u>	
	<u>Underlying Unexercised</u>		<u>In-the-Money Options</u>	
	<u>Options at 12/31/04</u>		<u>At 12/31/04</u>	
	<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
Dr. John W. Whitney				
Compensatory	4,800,000	-0-	\$ -0- (1)	\$ -0-
Non-compensatory	1,200,000	-0-	\$ -0- (1)	\$ -0-
Duane H. Rasmussen				
Compensatory	425,000	-0-	\$ -0- (2)	\$ -0-
Non-compensatory	2,125,000	-0-	\$ -0- (2)	\$ -0-

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(1) If value realized was based on the average of the closing bid and ask prices on December 31, 2004, the value realized would have been \$-0- for the compensatory options and \$-0- for the non-compensatory warrants. The securities under option, common stock of the Company, are restricted under Rule 144 and thus are not tradable within one year of exercise. In addition, as an officer and a greater than 10% shareholder of the Company, Dr. Whitney is further restricted by SEC regulations as to the sale of the Company's securities. The actual value realized, if and when the securities are sold, may be more or less than the value listed above. Consequently, the value of the unexercised options is reported at \$-0-.

(2) If value realized was based on the average of the closing bid and ask prices on December 31, 2004, the value realized would have been \$-0- for the compensatory and non-compensatory warrants. The securities under option, common stock of the Company, are restricted under Rule 144 and thus are not tradable within one year of exercise. In addition, as an officer of the Company, Mr. Rasmussen is further restricted by SEC regulations as to the sale of the Company's securities. The actual value realized, if and when the securities are sold, may be more or less than the value listed above. Consequently, the value of the unexercised options is reported at \$-0-.

ITEM 11.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

a) Equity Compensation Plan Information

<u>Plan Category</u>	<u>(a)</u> Number of securities to be issued upon exercise of outstanding options, warrants and rights	<u>(b)</u> Weighted-average exercise price of outstanding options, warrants and rights	<u>(c)</u> Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	-0-	\$-0-	-0-
Equity compensation plans not approved by security holders	5,996,626	\$0.25	989,000
<b>Total</b>	<b>5,996,626</b>	<b>\$0.25</b>	<b>989,000</b>

b) Security Ownership of Certain Beneficial Owners.

The following table sets forth certain data with respect to those persons known to the Company, as of March 31, 2005, to be the beneficial owners of more than 5% of the outstanding shares of common stock of the Company:

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Amount and Nature of Beneficial Ownership

Name and Address of Beneficial Owner	Common Shares		Percent of Class
	<u>Presently Held</u>	Which May Be Acquired Within <u>60 days</u>	
John W. Whitney P.O. Box 10725			
	<u>Total</u>		

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Reno, NV 89510

(1) (2) (3) (4)	29,399,530	6,000,000	35,399,530	17.3
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(1) Director

(2) Officer

(3) Includes 72,768 shares owned by Maureen E. Whitney, Dr. Whitney's wife.

(4) Dr. Whitney's options include compensatory options of 1,000,000 shares at \$0.25 per share, 3,000,000 shares at \$0.30 per share, 250,000 shares at \$0.20 per share, and 550,000 shares at \$0.15 per share. Dr. Whitney also has non-compensatory three year warrants for 1,200,000 shares at \$0.075, \$0.15, and \$0.225 per share for the first through third years of the option period. He received these warrants by converting \$120,000 in short term loans into the then existing private placement under the same terms and conditions as other investors.

c) Security Ownership of Management.

The following table sets forth as of March 31, 2005, certain information, with respect to director and executive officer ownership of common stock in the Company:

<u>Amount and Nature of Beneficial Ownership</u>				
Name and Address of <u>Beneficial Owner</u>	Common Shares  <u>Presently Held</u>	Common Shares Which May Be Acquired Within <u>60 days(1)</u>	Common Shares  <u>Total</u>	Percent of Class  <u>(2)</u>
Dr. John W. Whitney  P.O. Box 10725  Reno, NV 89510 (3) (4) (5)	29,399,530	6,000,000	35,399,530	17.3
Paul H. Durckel  1655 Highway 395  Minden, NV 89423 (3)	574,668	138,400	713,068	.4
Duane H. Rasmussen  P.O. Box 10725  Reno, NV 89510 (4)	4,364,011	2,550,000	6,914,011	3.4

All directors and  
executive officers as

a group (4 persons)	34,990,528	8,688,400	43,678,928	21.1
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(1) Dr. Whitney's options include compensatory options of 1,000,000 shares at \$0.25 per share, 3,000,000 shares at \$0.30 per share, 250,000 shares at \$0.20 per share, and 550,000 shares at \$0.15 per share. Dr. Whitney also has non-compensatory three year warrants for 1,200,000 shares at \$0.075, \$0.15, and \$0.225 per share for the first through third years of the option period. He received these warrants by converting \$120,000 in short term loans into the then existing private placement under the same terms and conditions as other investors. Mr. Durckel has three year warrants to acquire 138,400 restricted common shares related to his cash investment in the 2002 and 2003 Equity Private Placements, which are convertible at \$0.08, \$0.16, and \$0.24 per share for the first through third years of the option period. Mr. Rasmussen has a three year non-compensatory warrant to acquire 2,125,000 shares at \$0.08, \$0.16, and \$0.24 per share for the first through third years of the option period. He acquired this warrant by investing \$170,000 of his back salary in the existing private placement. Mr. Rasmussen also was granted a compensatory option to acquire 425,000 restricted common shares at \$0.15 per share. This option is exercisable at any time until one year after Mr. Rasmussen leaves the employment of the Company.

(2) The percent of class is based on the sum of 198,389,068 shares outstanding or to be issued as of March 31, 2005 plus, for each individual, the number of common shares as to which the named individual has the right to acquire beneficial ownership within 60 days of March 31, 2005.

(3) Director

(4) Officer

(5) Includes 72,768 shares owned by Maureen E. Whitney, Dr. Whitney's wife.

c) Changes in Control

The Company is not aware of any arrangement which at some later date results in changes in control of the Company.

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ITEM 12.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Advances from an officer/stockholder totaled \$161,525 and \$248,168 at December 31, 2004 and 2003, respectively.

\$389,127 and \$218,185 of the accrued management salaries as of December 31, 2004 and 2003, respectively, is for salary in arrears due to several officer/stockholders and employee/stockholders. In addition, salary in arrears of \$523,800 and \$515,100 for 2004 and 2003, respectively, are included in stock to be issued at the respective year ends. These amounts represent the portion of salaries earned but unpaid that the officers/employees/stockholders have

agreed to accept in our common stock. The number of shares to be issued are 6,488,021 and 6,220,624 for 2004 and 2003, respectively. Issuance of the stock is pending sufficient cash available to pay the related federal withholding taxes. Interest accrued at 12% per annum on salaries due officer and employee/stockholders amounted to \$97,869 and \$113,233, respectively, in 2004 and 2003. Of these amounts, \$94,299 and \$109,290 for 2004 and 2003, respectively, were paid (or will be paid) by issuance of 990,187 and 808,092 shares of restricted common stock.

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Interest expense on related party loans amounted to \$31,041 and \$33,706 for the years ended December 31, 2004 and 2003, respectively. Accrued interest on related party loans totaled \$6,307 and \$42,876 at December 31, 2004 and 2003, respectively.

After approval from our Board of Directors, in March 1999 our subsidiary, WWI, agreed to provide technical services to Golden Phoenix Minerals, Inc. (GPXM), a junior mine exploration and development company whose common shares trade on the OTC Bulletin Board. Services were billed monthly and WWI received a combination of GPXM common stock, SEC Rule 144 restricted common stock, and cash. The consulting agreement expired on March 1, 2005 and WWI no longer provides services to GPXM.

Separately, Dr. Whitney personally agreed to acquire up to 10,000,000 common shares of GPXM at \$0.10 per share, making him beneficial owner of more than ten percent of GPXM. Any unexercised options under this arrangement can be assigned to WWI. Dr. Whitney is a principal in a group that controls the mining claims underlying one of GPXM's principal exploration and development properties. At December 31, 2004 WWI owned 123,198 restricted GPXM shares. At December 31, 2003 WWI owned 736,442 restricted GPXM shares. The initial Rule 144 one year period for resale began in April 2000, and continues monthly thereafter. Total revenue from GPXM for 2004 and 2003 was \$224,039 and \$146,893, respectively. A total of \$101,281 and \$13,707 is included in accounts receivable at December 31, 2004 and 2003, respectively. At December 31, 2004, the average bid/asked price for GPXM common was \$0.213, resulting in a value of shares held on that date of \$26,180. Included in the GPXM shares held at December 31, 2003 and 2002 are 300,000 and 1,050,000 restricted common shares, respectively, that were acquired by WWI purchasing \$0.10 options from Dr. Whitney and subsequently exercising the options by offsetting accounts receivable due it from GPXM. The purchase price of the options was \$109,275, which was determined at 85% of fair market value of the then current trading price of GPXM, less the \$0.10 option price. This valuation method is under the same terms that WWI uses to accept GPXM restricted common shares for its monthly services. Dr. Whitney accepted Company restricted common shares in the 2002 Equity Private Placement as payment for the options, which amounted to 1,365,938 shares plus an equal number of warrants with conversion prices ranging from \$0.08 to \$0.24 per share. The total cost to WWI of these GPXM shares was \$214,275 and the market value at December 31, 2002 was \$241,500. The 300,000 shares held at December 31, 2003 were valued at \$135,750 and had a cost of \$70,650.

During 2004 Dr. Whitney loaned WWI 103,765 shares of GPXM stock at a value of \$28,276. The loaned shares were sold by WWI for \$25,097, for a realized loss of \$3,179. The loan was repaid in 2004 by conversion into the Company's restricted common stock when Dr. Whitney exercised warrants he acquired in 2003. During the first quarter of 2002 Dr. Whitney loaned WWI 600,000 shares of GPXM stock at a value of \$105,000. The loaned shares were sold by WWI for \$83,045, for a realized loss of \$21,955. In 2002, WWI repaid 416,463 of the GPXM shares out of shares owned by it at a value of \$72,881 and a realized gain of \$35,587. During 2003 the remaining balance of the loan and accrued interest was paid by a combination of 87,283 GPXM shares, 250,000 shares of other marketable securities, and 150,461 of our restricted common shares. The portion of the loan paid in our shares was converted into the \$0.08 per share Private Placement under the same terms and conditions as other investors, including an equal number of three year warrants. WWI realized a net gain of \$19,369 on the transaction.

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During 2003 WWI's lease of a vehicle utilized by Dr. Whitney was completed. Dr. Whitney purchased the vehicle by financing it through a commercial lender. The purchase price was \$21,741 and the monthly payment for four years is \$531. WWI is leasing the vehicle from Dr. Whitney by making the monthly payments to the commercial lender and will acquire ownership of the vehicle when the loan is paid in full.

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ITEM 13.

FINANCIAL STATEMENTS, EXHIBITS AND REPORTS ON FORM 8-K.

I. Index of Financial Statements and Exhibits

<u>1. Index of Financial Statements:</u>	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	43
Consolidated Balance Sheets as of December 31, 2004 and 2003	44
Consolidated Statements of Operations for the Years ended December 31, 2004 and 2003	46
Consolidated Statements of Stockholders' Equity (Deficit) for the Years ended December 31, 2004 and 2003	47
Consolidated Statements of Cash Flows for the Years ended December 31, 2004 and 2003	48
Notes to Consolidated Financial Statements	50
<u>2. Index of Exhibits:</u>	
14 Code of Business Conduct and Ethics	81
21 List of significant subsidiaries	82
31 Rule 15d-14(a) Certification	83
32 Section 1350 Certification	84

II. Reports on Form 8-K.

The following forms 8-K were filed during the fourth quarter of 2004:

October 7, 2004      Announced GOLD n GRO fertilizer sales for the three and

nine months ended September 30, 2004.

November 19, 2004      Announced sales and operating results for the three and  
nine months ended September 30, 2004.

December 2, 2004      Announced development of a subscription based internet  
publication featuring gold industry and gold company  
profiles.

## STATEMENTS AND SCHEDULES

Schedules not included are omitted for the reason that they are not applicable or not required.

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### Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Itronics Inc.

We have audited the accompanying consolidated balance sheet of Itronics Inc. (a Texas corporation) and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of Itronics Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As of December 31, 2004, the Company has an accumulated deficit of \$22,944,959, a negative working capital of \$3,215,298, and a stockholders' deficit balance of \$2,564,270. The Company's ability to continue as a going concern is contingent upon (a) future profitable operations and (b) the ability to generate sufficient cash to meet obligations as they become due. These conditions raise substantial doubt about the Company's ability to continue

as a going concern. Management's plans regarding this matter are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/S/ Cacciamatta Accountancy Corporation

Irvine, California

May 19, 2005

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ITRONICS INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2004 AND 2003

ASSETS

	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash	\$ 5,180	\$ 34,499
Accounts receivable, less allowance for doubtful accounts, 2004, \$5,700; 2003, \$5,700	188,805	96,384
Marketable securities, available for sale	26,180	413,240
Inventories	571,704	425,525
Prepaid expenses	142,509	53,073
Total Current Assets	934,378	1,022,721
PROPERTY AND EQUIPMENT		
Land	215,000	215,000
Building and improvements	1,167,315	1,167,315
Design and construction in progress,		

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manufacturing facility	121,171	102,203
Equipment and furniture	2,071,998	1,861,917
Vehicles	133,028	133,028
Equipment under capital lease-equipment and furniture	1,008,432	989,015
Equipment under capital lease-vehicles	87,672	87,672
	4,804,616	4,556,150
Less: Accumulated depreciation and amortization	1,670,668	1,383,307
	3,133,948	3,172,843
OTHER ASSETS		
Intangibles less accumulated amortization 2004, \$26,011;		
2003, \$25,963	8,435	8,483
Marketable securities, available for sale	-	120,000
Deferred loan fees, less accumulated amortization 2004, \$203,288; 2003, \$162,056	48,654	89,886
Deposits	22,525	26,575
	79,614	244,944
	\$4,147,940	\$4,440,508

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LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES		
Accounts payable	\$ 609,795	\$ 517,989
Accrued management salaries	389,127	218,185
Accrued expenses	398,731	213,295

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Insurance contracts payable	15,048	9,458
Interest payable on stockholder advances	6,307	42,876
Interest payable	204,909	174,728
Current maturities of long-term debt	522,845	537,031
Current maturities of capital lease obligations	807,746	994,456
Current maturities of advances from stockholders	161,525	248,168
Current maturities of capital lease due stockholder	5,420	4,869
Current maturities of convertible notes and accrued interest	1,020,946	1,686,286
Other	21,429	27,056
Total Current Liabilities	4,163,828	4,674,397
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	97,022	123,059
Convertible promissory notes	1,517,000	2,376,100
Accrued interest, convertible notes	925,216	879,126
Capital lease obligations, less current maturities	-	75,391
Capital lease due stockholder, less current maturities	9,144	14,117
Total Long-Term Liabilities	2,548,382	3,467,793
Commitments and Contingencies	-	-
	6,712,210	8,142,190
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, par value \$0.001 per share;		
authorized 999,500 shares; issued and outstanding		
2004, 0 shares; 2003, 0 shares	-	-

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Common stock, par value \$0.001 per share;		
authorized 250,000,000 shares; issued and		
outstanding 2004, 164,863,938; 2003, 122,373,953	164,864	122,374
Additional paid-in capital	19,438,213	15,234,212
Accumulated deficit	(22,944,959)	(20,105,087)
Common stock to be issued	786,426	672,255
Accumulated other comprehensive income	(9,568)	374,346
Common stock options outstanding, net	754	218
	(2,564,270)	(3,701,682)
	\$4,147,940	\$4,440,508

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

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ITRONICS INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
REVENUES		
Photochemical fertilizer	\$1,422,929	\$ 936,913
Mining technical services	297,120	331,874
Total Revenues	1,720,049	1,268,787
COST OF REVENUES (exclusive of depreciation and amortization shown separately below)		
Photochemical fertilizer	1,457,616	1,119,831

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Mining technical services	230,137	308,809
Total Cost of Revenues	1,687,753	1,428,640
Gross Profit (Loss) (exclusive of depreciation and amortization shown separately below)	32,296	(159,853)
OPERATING EXPENSES		
Depreciation and amortization	325,404	336,738
Research and development	165,083	69,353
Sales and marketing	971,988	739,043
Delivery and warehousing	78,565	47,211
General and administrative	897,882	841,747
	2,438,922	2,034,092
Operating (Loss)	(2,406,626)	(2,193,945)
OTHER INCOME (EXPENSE)		
Interest	(790,027)	(965,071)
Gain on sale of investments	168,937	449,606
Other	187,844	(42,881)
Total Other Income (Expense)	(433,246)	(558,346)
(Loss) before provision for income tax	(2,839,872)	(2,752,291)
Provision for income tax	-	-
Net Income (Loss)	(2,839,872)	(2,752,291)
Other comprehensive income		
Unrealized gains on securities	(383,914)	132,693

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Comprehensive Income (Loss)	\$(3,223,786)	\$(2,619,598)
Weighted average number of shares outstanding,		
basic and diluted	141,941,235	103,994,400
Earnings (Loss) per share, basic and diluted	\$(0.020)	\$ (0.026)

The accompanying notes are an integral part of these financial statements

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ITRONICS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>COMMON STOCK</u>				ACCUMULATED	
	NUMBER OF		ADDITIONAL		OTHER	
	SHARES		PAID-IN	ACCUMULATED	COMMON	
				DEFICIT	STOCK TO	
	<u>(1,000 \$)</u>	<u>AMOUNT</u>	<u>CAPITAL</u>	<u>DEFICIT</u>	<u>BE ISSUED</u>	<u>COMPREHENSIVE INCOME</u>
Balance, Dec. 31, 2002	88,690	\$ 88,690	\$11,748,423	\$(17,352,796)	\$ 576,998	\$241,653
Issue of common stock:						
For cash	12,583	12,583	1,011,287	-	(15,000)	-
For services	7,808	7,808	891,576	-	233,395	-
For debt conversion	11,627	11,627	1,434,817	-	(13,863)	-
For asset acquisition	1,666	1,666	148,109	-	(109,275)	-
Net (loss) for the year	-	-	-	(2,752,291)	-	-



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ended Dec. 31, 2003						
Other comprehensive						
income for the year						
ended Dec. 31, 2003	-	-	-	-	-	132,693
Common stock options						
outstanding	-	-	-	-	-	-
Balance, Dec. 31, 2003	122,374	122,374	15,234,212	(20,105,087)	672,255	374,346
Issue of common stock						
For cash	12,983	12,983	1,095,018	-	(27,500)	-
For services	8,935	8,935	793,618	-	(16,292)	-
For debt conversion	18,311	18,311	2,128,152	-	157,963	-
For asset acquisition	2,261	2,261	187,213	-	-	-
Net (loss) for the year						
ended Dec. 31, 2004	-	-	-	(2,839,872)	-	-
Other comprehensive						
income for the year						
ended Dec. 31, 2004	-	-	-	-	-	(383,914)
Common stock options						
outstanding	-	-	-	-	-	-
Balance, Dec. 31, 2004	164,864	\$164,864	\$19,438,213	\$(22,944,959)	\$786,426	\$ (9,568)

The accompanying notes are an integral part of these financial statements

ITRONICS INC, AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Net income (loss)	\$(2,839,872)	\$(2,752,291)
Adjustments to reconcile net loss to		
<b>cash used by operating activities:</b>		
Depreciation and amortization	325,404	336,738
Interest on convertible notes	483,868	606,754
Marketable securities received for services	(35,748)	(53,050)
Gains on investments	(168,937)	(449,604)
Addition of silver in solution inventory by		
offsetting photochemical processing fees	(166,993)	(97,389)
Gain on debt forgiveness	(187,814)	-
Other	-	20,395
Stock option compensation	536	(108,955)
Expenses paid with issuance of common stock:		
Interest expense	94,299	109,362
Consulting expenses	281,643	225,976
Directors fees	3,450	4,125
Salaries	297,536	448,624
Operating expenses	5,000	76,492
(Increase) decrease in:		

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Trade accounts receivable	(92,421)	(8,160)
Inventories	20,814	9,017
Prepaid expenses, deposits and other	14,896	(20,415)
Increase (decrease) in:		
Accounts payable	105,762	(12,593)
Accrued management salaries	170,942	39,157
Accrued expenses and contracts payable	269,785	(720)
Net cash used by operating activities	(1,417,850)	(1,626,537)
Cash flows from investing activities:		
Acquisition of property and equipment	(56,756)	(47,837)
Acquisition of investments	-	(9,000)
Sale of investments	356,107	786,381
Net cash provided (used) by investing activities	299,351	729,544
Cash flows from financing activities:		
Proceeds from sale of stock	1,080,501	1,008,870
Proceeds from stockholders/short-term debt	150,000	-
Account receivable factoring, net	13,224	38,005
Payments on debt	(154,545)	(172,584)
Net cash provided by financing activities	1,089,180	874,291
Net increase (decrease) in cash	(29,319)	(22,702)
Cash, beginning of year	34,499	57,201
Cash, end of year	\$ 5,180	\$ 34,499

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

ITRONICS INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(continued)

	<u>2004</u>	<u>2003</u>
Supplemental Disclosures of Cash Flow		
Information:		
Cash paid during the period for interest	\$158,587	\$ 164,423
Schedule of non-cash financing transactions:		
Settlement of debt/accruals by		
issuance of common stock:		
Accounts payable	27,178	118,194
Accrued management salaries	-	162,250
Convertible notes and accrued interest	1,962,219	1,420,471
Short-term debt and accrued interest due an		
officer/stockholder	315,029	12,110
Equipment financed with capital leases	2,236	31,008
Acquisition of assets by issuance of		
common stock:		
Minority interest in American Gold & Silver Ltd.	-	40,500
Equipment	189,474	-
Officer/stockholder loan of marketable securities	28,276	-
Payment of short-term debt due an officer/		
stockholder with marketable securities	-	55,275

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

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ITRONICS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

NOTE 1 - Summary of Significant Accounting Policies:

Company's Activities:

Itronics Inc., through its subsidiaries, (the Company) is involved in mining technical services, photochemical recycling and related silver recovery, and liquid fertilizer manufacturing.

Financial Statement Estimates and Assumptions:

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation:

The consolidated financial statements include the accounts of

Itronics Inc. and its subsidiaries:

	2004	2003
	<u>PERCENTAGE</u>	<u>PERCENTAGE</u>
Whitney & Whitney, Inc.	100.00	100.00
Itronics Metallurgical, Inc.	100.00	100.00
Itronics California, Inc.	100.00	100.00
Nevada Hydrometallurgical Project (A Partnership)	92.50	92.50
American Hydromet (A Joint Venture)	82.53	82.53
American Gold & Silver (A Limited Partnership)	47.77	47.77

Whitney & Whitney, Inc. is the general partner for American Gold & Silver. As such, the Company has control over American Gold & Silver and has included it in its consolidation.

American Gold & Silver and Nevada Hydrometallurgical Project possess no material tangible assets or liabilities.

No amount for minority interests is reflected in the consolidated balance sheets as the equity of minority interests in the net losses exceed the carrying value of the minority interests.

No amount for minority interests is reflected in the consolidated statement of operations since losses applicable to the minority interest in each subsidiary exceed the minority interest in the equity capital of each subsidiary. As a result, losses applicable to the minority interest are charged against the majority interest. When future earnings materialize, the majority interest will be credited to the extent of such losses previously absorbed.

All significant intercompany accounts and transactions have been eliminated in the consolidation.

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

Revenue recognition:

The Company manufactures fertilizer from used photochemical solutions. Revenues are generated in three distinct areas: (1) fees associated with removing used photochemical solutions from customer sites and sales of photochemical concentrators, (2) sales of fertilizer and (3) sales of silver. Fertilizer and silver sales are recognized when goods are shipped to our customers. Returns and allowances have been nominal. Service fees from photochemical recycling are recorded after the photochemical solutions have been picked up and transported from our customers to our manufacturing facility.

The Company provides consulting services to various entities in the mining industry. Revenue is recognized as services are delivered. When the mining technical services segment of the Company is responsible for the procurement of materials and equipment, property, or subcontracts in its consulting business, it includes such amounts in both revenues and cost of sales. The amount of such pass-through costs included in both mining consulting revenues and cost of sales for the year ended December 31, 2004 and 2003 were \$108,254 and \$118,735, respectively.

Cash and Cash Equivalents:

At present, cash includes only deposits in checking and money market accounts and does not include any cash equivalents.

Accounts Receivable Allowance Account:

The Company uses the allowance method to account for uncollectible accounts receivable.

Marketable Securities:

The Company maintains investments in marketable securities, received as payment from one technical services customer. All of these equity securities are available for sale and are recorded at fair value. The change in fair value is recorded as an unrealized gain or loss in other comprehensive income. Upon sale of the security, the company recognizes a realized gain or loss, based on specific identification of security sold. Unrealized losses are charged against net earnings when a decline in fair value is determined to be other than temporary.

## Inventories:

Inventory is carried on the balance sheet at the lower of cost or market value using the average cost valuation method and consists primarily of unprocessed silver bearing photochemicals, fertilizer raw materials and saleable fertilizer. Because a large part of our inventory is silver contained in used photochemical solution and the market value of silver changes daily on the commodities market, we regularly monitor the carrying value of our silver in solution inventory to ensure it is carried at the lower of cost or its current market value. If silver on the open market were less than our carrying

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## ITRONICS INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

value, then we would write down the carrying value of our inventory by reducing recorded inventory and increasing cost of sales. If the amount of the write down were material, we would separately include the item in our statement of operations. The raw material balances below include \$396,614 and \$233,908 in unprocessed silver bearing photochemicals as of December 31, 2004 and 2003, respectively.

Following is a summary of finished goods, work in progress, and raw materials inventories as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Finished goods	\$ 63,615	\$ 60,553
Work in progress	-	15,150
Raw materials	508,089	349,822
	\$571,704	\$425,525

## Accounts Receivable and Inventory Factoring:

The Company factors some of its receivables and inventory with unrelated third parties. A liability is recorded when cash is received; interest is recorded over the period the liability is outstanding. The liability and accrued interest is repaid within a day or two of when the Company is paid by the customer. Interest rates range from 2 to 3% per month, or 24 to 36% annually. Additionally, while the Company does not have any formal limits on the amounts it can factor, typically no more than \$120,000 in assets is factored at any given time.

## Property and Equipment:

Property and equipment are stated at cost. Costs associated with creating website content and graphics are capitalized under EITF 00-2, "Accounting for Web Site Development Costs." Depreciation is computed by accelerated and straight-line methods. Capital lease equipment is amortized using accelerated and straight-line methods. Accumulated amortization on capital lease equipment is \$474,340 and \$376,996 at December 31, 2004 and 2003, respectively. Property and equipment is depreciated or amortized over the following periods.

Building and improvements	20 - 40 years
Equipment and furniture	5 - 20 years
Vehicles	5 years
Equipment under capital lease-equipment and furniture	5 - 20 years
Equipment under capital lease-vehicles	5 years

Repairs and maintenance, including website maintenance and administration, are charged to operations as incurred.

Intangible Assets:

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

Intangible assets are amortized by the straight-line method over the following lives:

	<u>YEARS</u>
Patents	17
Deferred loan fees	3-5

Estimated aggregate amortization expense for the succeeding five years is:

2005	\$14,244
2006	3,949
2007	3,255
2008	3,255



2009

3,255

Research and Development:

Wages, benefits, rent, and other costs, including costs to plan and populate databases and content on our web site development costs are expensed as incurred as research and development in accordance with SFAS 7 *Accounting for Research and Development Costs*, and EITF 00-2 *Accounting for Web Site Development Costs*.

Advertising:

The Company advertises its products in various trade publications and general newspaper supplements. It also promotes the Company in various business publications, television, and internet media. Such advertising costs include the creative process, costs of production, and placement costs of the ads themselves. All advertising costs are expensed as incurred. Total advertising expense was \$157,986 and \$32,960 for the years ended December 31, 2004 and 2003, respectively.

Income Taxes:

The Company has accounted for income taxes to conform to the requirements of Statements of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. Under the provisions of SFAS 109, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have already been recognized in the Company's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law. The effects of future changes in tax laws or rates are not anticipated. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Loss per Common Share:

Loss per common share is calculated based on the consolidated net loss for the period divided by the weighted average number of common shares outstanding during 2004 and 2003. Common stock equivalents are not included, as their effect would be antidilutive.

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

Common Stock:

The Company's common shares have, subject to the provisions of any series of Preferred Stock, certain rights including one vote per share on a non-cumulative basis and a ratable portion of any dividends that may be declared by the Board of Directors. The Company may from time to time issue common shares that are restricted under Rule 144 of the Securities and Exchange Commission. Such restrictions require the shareholder to hold the shares for a

minimum of one year before sale. In addition, officers, directors and more than 10% shareholders are further restricted in their ability to sell such shares.

#### Stock Based Compensation:

The Company issues stock to its employees, directors and consultants pursuant to various Stock Option and Purchase Plans. The Company accounts for options granted to employees and directors under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. Accordingly, no compensation expense is recognized. In accordance with Statement of Financial Accounting Standard (SFAS) 123, *Accounting for Stock Based Compensation* and SFAS 148, *Accounting for Stock Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123*, the Company discloses the additional compensation expense that would have been recorded had the Company elected to account for stock options under SFAS 123. The Company accounts for options granted to people other than employees and directors under SFAS 123. The Company accounts for options granted to people other than employees and directors under SFAS 123 and EITF 98-16, *Accounting for Equity Investments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods and Services*. As such, the value of such options is periodically remeasured and income or expense is recognized during their vesting term.

On December 16, 2004 the FASB issued SFAS No. 123R, "Share-Based Payment," which is an amendment to SFAS No. 123, "Accounting for Stock-Based Compensation." This new standard eliminates the ability to account for share-based compensation transactions using Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and generally requires such transactions be accounted for using a fair-value-based method and the resulting cost recognized in our financial statements. This new standard is effective for awards that are granted, modified or settled in cash in interim and annual periods beginning after June 15, 2005, December 15, 2005 for small business issuers. In addition, this statement will apply to unvested options granted prior to the effective date. The Company will adopt this new standard effective for the first fiscal quarter of 2006 and it has not yet determined what impact this standard will have on its financial position or results of operations.

#### Asset Impairment:

The Company monitors conditions that may affect the carrying value of its long-lived and intangible assets when events and circumstances indicate that the carrying value of the assets may be impaired. The Company determines impairment based on the asset's ability to generate cash flow greater than the

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## ITRONICS INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

carrying value of the asset. If projected undiscounted cash flows are less than the carrying value of the asset, the asset is adjusted to its fair value.

#### Non-monetary Transactions:

The Company periodically enters into non-monetary transactions. These transactions are recorded based on the fair value of the asset, goods or services received or surrendered, whichever is more clearly evident and at such time as the

earnings process is complete. When material non-monetary transactions occur, the Company discloses the transaction and basis for valuing the transaction in the period the transaction occurs. Additionally, pursuant to SFAS No. 95, "Statement of Cash Flows," the Company discloses non-cash investing and financing activities.

Contingencies:

From time to time, the Company may become party to claims against it. Management evaluates these claims as they arise as probable, reasonably possible and remote. A liability is recorded when management estimates a loss is probable. Potential costs that arise are disclosed when management believes a loss is reasonably possible and that amount can be estimated.

NOTE 2 - Reclassification:

The prior year's financial statements have been reclassified, where necessary, to conform with the current year presentation.

NOTE 3 - Long-Term Debt:

Long-term debt at December 31, 2004 and 2003 is comprised of the following (all debt payments are applied to outstanding interest owed at date of payment prior to being applied to the principal balance). The carrying amount approximates fair value. The fair value of long-term debt is based on current rates at which the Company could borrow funds with similar remaining maturities.

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

	<u>DECEMBER 31,</u>	
	<u>2004</u>	<u>2003</u>
<u>Notes due to unrelated parties:</u>		
Notes payable secured by vehicles due at varying dates through 2006. The monthly payments total \$1,345, including interest at 10.5% to 11.0% per annum.	\$ 17,440	\$ 33,584

Note payable secured by real property due May 2016.

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Monthly payment is \$6,601, including interest

at 12% per annum.

492,881

510,218

Financing contract secured by equipment due May 2006.

Monthly payment is \$806, including interest at 17.99%

14,589

18,585

City of Reno Special Assessment District for road

and access improvements. Payable in 40 equal semi-

annual payments plus interest at 6% percent per annum.

94,957

97,703

Less current portion due within one year

(522,845)

(537,031)

Total long-term liabilities due to unrelated parties

\$ 97,022

\$ 123,059

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

DECEMBER 31,

2004

2003

Convertible Promissory Notes:

Three year convertible promissory notes due

November 2005 through February 2006, including

interest at 12% per annum. The notes and accrued

interest are convertible into the Company's

restricted common stock at \$0.15 per share at

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any time through November 18, 2005 and

February 16, 2006.

\$ 47,000

\$ 47,000

Three year convertible promissory notes due at varying dates through February 2006, including interest at 9% to 12% per annum. The notes and accrued interest are convertible into the Company s restricted common stock at prices ranging from \$0.125 to \$1.18 per share at any time through February 2006.

1,570,000

1,645,000

Three year convertible promissory notes due at varying dates through December 2004, including interest at 12% per annum. The notes and accrued interest are convertible into the Company s restricted common stock at prices ranging from \$0.10 to \$0.15 per share at any time through dates ranging from March to December 2004.

20,000

1,185,000

Three year convertible promissory notes due at varying dates through September 2005, including interest at 12% per annum. The notes and accrued interest are convertible into the Company s restricted common stock at prices ranging from \$0.10 to \$0.25 per share at any time through

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dates ranging from January to September 2005.	606,100	774,100
Accrued interest on convertible promissory notes	1,220,062	1,290,412
Less current portion due within one year	(1,020,946)	(1,686,286)
Total Long Term Convertible Promissory Notes		
and Accrued Interest	\$2,442,216	\$3,255,226

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

	<u>DECEMBER 31,</u>	
	<u>2004</u>	<u>2003</u>
<u>Loans from Stockholders/Related Transactions:</u>		
Advances from officer/stockholder. Due on demand,		
with interest accruing at 12% per annum.	\$161,525	\$ 248,168
	161,525	248,168
Less current portion due within one year	(161,525)	(248,168)
Total long-term liabilities due to stockholders	\$ -	\$ -

Long-term debt matures as follows:

UNRELATED      CONVERTIBLE

<u>YEAR</u>	<u>PARTIES</u>	<u>NOTES</u>	<u>STOCKHOLDERS</u>
2005	\$522,845	\$1,020,946	\$161,525
2006	8,023	2,442,216	-
2007	3,276	-	-
2008	3,475	-	-
2009	3,687	-	-
2010-2023	78,561	-	-
	\$619,867	\$3,463,162	\$161,525

As discussed in Note 15, property taxes on the Company's manufacturing facility are delinquent as of December 31, 2004 in the amount of \$7,336 plus penalties and interest. Such delinquency in property tax payments is a default under terms of the deed of trust securing the mortgage on the property and the lender can demand payment in full and institute foreclosure proceedings. As required by U.S. Generally Accepted Accounting Principles, the entire principal balance of the note, amounting to \$492,881 as of December 31, 2004, is included in current liabilities. The lender is aware of the situation and has not made a demand or taken any other action. In addition a financing contract on equipment, with a balance of \$14,589, is in default and is included in current liabilities. The lender has referred the loan to an attorney, but no further action has been taken.

During 2003 the holders of the 2000 Series Convertible Promissory Notes were offered to extend the notes for three years in exchange for an increased interest rate to 12% and a reduction in conversion price to \$0.125 per share, an amount above the trading price of our stock. As of December 31, 2004 all but \$80,000 of the notes and \$44,475 of the accrued interest were extended. The un-extended notes and accrued interest are in default, but no action has been taken by the note holders.

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

NOTE 4 - Major Customers:

Fertilizer sales for the years ended December 31, 2004 and 2003 include \$989,084 and \$518,202, respectively, from one major customer, which represents 97% and 93%, respectively, of fertilizer sales for the years ended December 31, 2004 and 2003. Receivables from this major customer as of December 31, 2004 amounted to \$58,094, which represents 77% of photochemical fertilizer accounts receivable. The customer is one of the largest fertilizer distribution companies in the country.

Photochemical recycling revenues for the year ended December 31, 2004 and 2003, respectively, include \$0- and \$80,900 from one major customer under a Department of Defense contract. Photochemical recycling and silver refining revenues for the years ended December 31, 2004 and 2003 also include \$201,291 and \$116,693, respectively, from one major customer in the digital imaging and processing industry. The combined revenues from the one major customer represents 59% of 2004 photochemical recycling and silver refining revenues and the combined revenues for the two major customers was 60% of photochemical recycling and silver refining revenues for 2003.

Sales of silver bars, film, and processed bullion for the year ended December 31, 2004 includes \$47,456 to three customers, which is 75% of such sales. Comparable sales for the year ended December 31, 2003 include \$15,726 to two customers, which is 57% of such sales.

Technical services revenue (including pass through funds described in Note 1) for the year ended December 31, 2004 includes \$224,039 and \$32,816 from two major customers which represents 86% of technical services revenues. Technical services revenue (including pass through funds described in Note 1) for the year ended December 31, 2003 includes \$146,893, \$131,600, and \$45,830 from three major customers which represents 98% of technical services revenues. Receivables from these major customers as of December 31, 2004 and 2003 amount to \$101,281 and \$21,210, which represents 85% and 73%, respectively, of consulting accounts receivable.

The Company's major technical services customers operate within the mining industry, both nationally and internationally. Due to the nature of the Company's operations, the major sources of revenues may change from year to year.

NOTE 5 - Income Taxes:

The following is a reconciliation of the federal statutory tax and tax rate to the Company's provision for taxes and its effective tax rate.

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

	<u>2004</u>		<u>2003</u>	
	PERCENT		PERCENT	
	OF		OF	
	PRE-TAX		PRE-TAX	
	<u>AMOUNT</u>	<u>INCOME</u>	<u>AMOUNT</u>	
	<u>INCOME</u>	<u>AMOUNT</u>	<u>INCOME</u>	
Federal tax at statutory rate	\$-	- %	\$-	- %



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Temporary differences,

primarily bad debt and

compensation related expenses	-	- %	-	- %
Non-deductible expenses	-	- %	-	- %
Utilization of NOL	-	- %	-	- %
Total Income Tax Expense	\$-	0.0%	\$-	0.0%

The Company's consolidated net operating loss available for carry-forward to offset future taxable income and tax liabilities for income tax reporting purposes expire as follows:

<u>Year Ending December 31:</u>	<u>Net Operating Loss</u>
2005	\$ 65,113
2006	430,403
2007	188,146
2008	113,253
2012	322,525
2018	377,944
2019	1,605,954
2020	3,254,375
2021	2,933,607
2022	2,496,744
2023	2,286,436
2024	2,208,740
	\$16,283,240

The Company's total deferred tax assets, and deferred tax asset valuation allowances at December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Total deferred tax assets	\$ 5,682,993	\$ 4,776,751
Less valuation allowance	(5,682,993)	(4,776,751)
Net deferred tax asset	\$ -	\$ -

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## ITRONICS INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

#### NOTE 6 - Stock Option and Purchase Plans:

In January 2000 the Company began a private placement of three year convertible notes to raise \$2.5 million. The placement was completed in February 2000 and raised a total of \$2,668,000. The notes and accrued interest are convertible to restricted Common Shares at varying dates through February 2006, with conversion prices ranging from \$0.125 to \$1.18. During 2003 the holders of these notes were offered to extend the notes for three years in exchange for an increased interest rate from 9% to 12% and a reduction in conversion price to \$0.125 per share. All but \$90,000 of the notes were extended. \$75,000 in principal and \$34,434 in accrued interest were converted to restricted common stock during 2004. \$928,000 in principal and \$340,450 in accrued interest were converted to restricted common stock during 2003.

In October 2000 the Company completed the registration of 10,000,000 common shares in connection with its agreement with Swartz Private Equity, LLC. (Swartz) to raise \$15 million over three years. As part of the agreement, Swartz received a five year warrant for 2,400,000 shares at \$0.55 per share and it received five year warrants for 331,033 shares based on the exercise of the Company's put rights during 2001. The exercise price of these warrants range from \$0.0825 to \$0.308, but are subject to downward reset provisions. In February 2002 the agreement with Swartz was renegotiated and as part of the new agreement, Swartz was granted a five year warrant for 360,000 shares at an exercise price of \$0.238.

In March 2001 the Company began a private placement of three year convertible notes. A total of \$1,242,029 was raised in 2001. The notes and accrued interest at 12% compounded annually are convertible to restricted common shares at varying dates through December 2004, with conversion prices ranging from \$0.10 to \$0.15. \$1,165,000 in principal and \$471,492 in accrued interest were converted to restricted common stock during 2004. \$57,029 in

principal and \$14,551 in accrued interest were converted to restricted common stock during 2003.

In January 2002 the Company began a private placement of three year convertible notes. A total of \$844,100 was raised in 2002. The notes and accrued interest at 12% compounded annually are convertible to restricted common shares at varying dates through September 2005, with conversion prices ranging from \$0.10 to \$0.25. \$168,000 in principal and \$48,294 in accrued interest were converted to restricted common stock during 2004. \$70,000 in principal and \$10,442 in accrued interest were converted to restricted common stock during 2003.

In November 2002 the Company began a private placement of restricted common stock with an equal number of attached warrants. A total of \$117,500 at \$0.08 per share was raised in 2002. The warrants are for three years and are convertible into restricted common stock at \$0.08 for the first year, \$0.16 for the second year, and \$0.24 for the third year.

## ITRONICS INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

During 2003 the Company continued the private placement of restricted common stock with an equal number of attached warrants. A total of \$703,500 at \$0.08 per share was raised in 2003. The warrants are for three years and are convertible into restricted common stock at \$0.08 during the first year, \$0.16 during the second year, and \$0.24 during the third year.

During 2003 three officer/employee/stockholders converted salary in arrears totaling \$480,000, or a total of 6,000,000 restricted common shares, into the \$0.08 per share private placement described above under the same terms and conditions, including an equal number of attached warrants, as described above. Of this amount, \$317,500 was for salary previously converted to restricted common stock, but not issued to conserve the cash required to pay payroll taxes, and \$162,500 was additional salary in arrears converted into restricted common stock. The shares remain un-issued as of the date of this report to conserve cash. Also during 2003 an officer/stockholder converted a total of \$12,037 in short term debt and accrued interest into the private placement with the same terms and conditions as described above.

During 2004 the Company continued the private placement of restricted common stock with an equal number of attached warrants. Through May 2004 a total of \$646,000 at prices ranging from \$0.08 to \$0.125 per share was raised. The warrants, totaling 3,924,500 shares, are for three years and are convertible into restricted common stock at prices ranging from \$0.08 to \$0.125 during the first year of the warrant period, double the respective amounts during the second year, and triple the respective amounts during the third year. In December 2004 a new private placement of restricted common shares was begun with an attached three year warrant for one half the number of shares acquired in the private placement. A total of \$197,500 was raised in 2004 at \$0.05 per share, which resulted in the issuance of warrants to acquire 1,975,000 restricted common shares. The exercise price of these warrants is \$0.075 during the first year of the warrant period, double that amount during the second year, and triple that amount during the third year. In addition, an officer/stockholder converted \$120,000 in loans to the Company into the private placement and received warrants to acquire 1,200,000 restricted common shares under the same terms and conditions as the other investors in the private placement.

The Company periodically grants compensatory options and warrants to acquire common shares to certain officers, directors, employees, and consultants of the Company. The options are exercisable at varying dates through 2014, except for 5,600,000 options granted to various officers and employees, which expire one year after the end of their employment. The number of outstanding compensatory options and warrants was 5,996,626 and 4,409,591 shares at December 31, 2004 and 2003, respectively, at prices ranging from \$0.15 to \$0.90.

Following is a summary of all warrant and option activity for the years ended December 31, 2004 and 2003.

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

	<u>NUMBER OF SHARES</u>	
	<u>2004</u>	<u>2003</u>
Under option, beginning of year	60,907,607	35,618,794
Granted	12,558,586	39,125,973
Exercised	(21,484,760)	(13,483,260)
Expired	(87,965)	(353,900)
Under option, end of year	51,893,468	60,907,607
Average price for all options granted and exercised	\$0.11	\$0.12

Compensatory Stock Options:

Included in the above options and warrants are compensatory options granted to various employees and consultants during 2004 and 2003 to acquire 1,675,000 and 14,000 common shares, respectively. Of the options for 2004, 1,600,000 shares are exercisable any time up to twelve months after the end of the respective employee's employment, 60,000 shares are exercisable at any time over three years from the date of grant, and 15,000 shares are exercisable at any time over ten years from the date of grant. All 2004 options are exercisable at \$0.15 per share. Of the options for 2003, 12,000 shares are exercisable at any time over three years from the date of grant and 2,000 shares are exercisable at any time over ten years from the date of grant. The exercise prices are 2,000 shares at \$0.50 and 12,000 shares at \$0.90. The Company applies APB Opinion 25 in accounting for these stock options. Total option compensation expense, based on the fair market values of the stock on the grant dates, is \$536 for December 31, 2004. For 2004, options for 87,965 shares from prior years expired. For 2003, options for 353,900 shares from prior years expired during the year, resulting in option compensation expense of \$(108,955) and deferred compensation of \$123.

If the Company were to apply the provisions of FASB Statement No. 123 to these options, using the fair value method, compensation expense would have been \$61,575 and \$96 for December 31, 2004 and 2003, respectively. Net

loss and loss per share would have been impacted as follows:

	<u>2004</u>	<u>2003</u>
Net Income (Loss):		
As reported	\$(2,839,872)	\$(2,752,291)
Adjustment for additional expense for fair value of options	(61,039)	(109,051)
Pro forma	\$(2,900,911)	\$(2,861,342)
Earnings (Loss) per share, basic and diluted		
As reported	\$(0.020)	\$(0.026)
Pro forma, basic and diluted	\$(0.020)	\$(0.028)

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The pro forma amounts were estimated for each quarter using the Black-Scholes option pricing model with the following assumptions for 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Dividend yield	0%	0%
Risk-free interest rate	2.75% to 4.75%	3.38%
Expected life	3-10 years	3-10 years
Expected volatility	16.65% to 66.75%	42.71%

## NOTE 7 Common Stock to be Issued:

The following summarizes stock transactions commencing prior to December 31, with stock issued or to be issued subsequent to that date:

	<u>2004</u>	<u>2003</u>
Payment of salaries	\$540,900	\$526,375
Payment of consulting and operating fees	4,800	5,600
Payment of director fees	525	1,125
Payment of interest, employees	37,701	67,118
Payment of debt, officer/stockholder	170,000	12,037
Private placement for cash	32,500	60,000
	\$786,426	\$672,255

Of the above salary amounts for December 31, 2004 and 2003, \$519,200 and \$488,000, respectively, is for compensation to three officer/stockholders that they have agreed to accept in our common stock. The related shares, totaling 6,000,000 common shares at December 31, 2004, remain unissued to preserve cash that would otherwise go to pay payroll taxes. Of the \$488,000 as of December 31, 2003, \$133,200 was expensed in 2003 and included in Expenses Paid with Issuance of Common Stock on the Statement of Cash Flows for that year, \$162,250 was a conversion of prior year salaries and is included in Settlement of Accruals by Issuance of Common Stock in the supplemental disclosures of cash flow information in 2003, and \$192,550 was salary accepted in stock in years prior to 2003 and is not reflected in the Statements of Cash Flows for 2003 or 2004. All of the remainder of the expense items listed above were expensed in the period indicated and are included in the appropriate category under Expenses Paid with Common Stock in the Statements of Cash Flows for the respective periods.

The Payment of debt amounts listed above, \$170,000 and \$12,037 for December 31, 2004 and 2003, respectively, reflect the conversion into common stock of loans made to the Company by an officer/stockholder. These amounts are included in the Supplemental Disclosure of Cash Flow Information under the heading Settlement of debt/accruals by issuance of common stock. The Private placement for cash amounts, \$32,500 and \$60,000 for December 31, 2004 and 2003, respectively, were cash received shortly before year end, with the stock issued

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 ITRONICS INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

in the following period. These amounts are included in Cash flows from financing activities under Proceeds from sale of stock in the year received.

NOTE 8 - Accrued Expenses:

The following is the composition of accrued expenses as of December 31:

	<u>2004</u>	<u>2003</u>
Accrued vacation	\$ 85,587	\$70,339
Federal and state payroll taxes	219,899	33,366
Sales tax	245	16,590
Audit and annual meeting costs	93,000	93,000
	\$398,731	\$213,295

NOTE 9 Other Comprehensive Income

The Company holds marketable securities that are available for sale, which consist solely of equity securities. The carrying amount on the balance sheets of these securities is adjusted to fair value at each balance sheet date. The adjustment to fair value is an unrealized holding gain or loss that is reported in Other Comprehensive Income. At present, these unrealized gains or losses are the only component of Accumulated and Other Comprehensive Income. The Company had an Accumulated Unrealized Holding Loss of \$9,568 at December 31, 2004, and an Unrealized Holding Gain of \$374,346 at December 31, 2003. The Company realized gross gains of \$172,116 and gross losses of \$3,179 on gross proceeds of \$356,107 during the twelve months ended December 31, 2004. No losses were reclassified out of accumulated other comprehensive income into earnings during 2004. The Company realized gross gains of \$468,735 and gross losses of \$19,131 on gross proceeds of \$786,381 during the twelve months ended December 31, 2003. Gains of \$256,387 and losses of \$28,791 were reclassified out of accumulated other comprehensive income into earnings during 2003. The table below illustrates the amount of unrealized holding gains and losses included in other comprehensive income, net of tax effects of \$0. The reclassification adjustment listed in the below table represents unrealized holding gains and losses transferred into earnings as securities are sold.

Following are the components of Other Comprehensive Income:

	Year Ended December 31,	
	<u>2004</u>	<u>2003</u>
Unrealized holding gains (losses)		
arising during the period	\$9,109	\$360,289

Reclassification adjustment	(393,023)	(227,596)
Other Comprehensive Income	\$(383,914)	\$132,693

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ITRONICS INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 10 - Related Party Transactions:

Promissory notes are held by stockholders at December 31, 2004 and 2003 (see Note 3 for terms).

\$389,127 and \$218,185 of the accrued management salaries as of December 31, 2004 and 2003, respectively, is for salary in arrears due to several officer/stockholders and employee/stockholders. In addition, salary in arrears of \$523,800 and \$515,100 for 2004 and 2003, respectively, are included in stock to be issued at the respective year ends. These amounts represent the portion of salaries earned but unpaid that the officers/employees/stockholders have agreed to accept in the Company's common stock. The number of shares to be issued are 6,488,021 and 6,220,624 for 2004 and 2003, respectively. Issuance of the stock is pending sufficient cash available to pay the related federal withholding taxes. Interest accrued at 12% per annum on salaries due officer and employee/stockholders amounted to \$97,869 and \$113,233, respectively, in 2004 and 2003. Of these amounts, \$94,299 and \$109,290 for 2004 and 2003, respectively, were paid (or will be paid) by issuance of 990,187 and 808,092 shares of restricted common stock.

Interest expense on related party loans amounted to \$31,041 and \$33,706 for the years ended December 31, 2004 and 2003, respectively. Accrued interest on related party loans totaled \$6,307 and \$42,876 at December 31, 2004 and 2003, respectively.

After approval from the Company's Board of Directors, in March 1999 the Company's subsidiary, WWI, agreed to provide technical services to Golden Phoenix Minerals, Inc. (GPXM), a junior mine exploration and development company whose common shares trade on the OTC Bulletin Board. Services were billed monthly and WWI received a combination of GPXM common stock, SEC Rule 144 restricted common stock, and cash. Separately, Dr. Whitney personally agreed to acquire up to 10,000,000 common shares of GPXM at \$0.10 per share, making him beneficial owner of more than ten percent of GPXM. Any unexercised options under this arrangement can be assigned to WWI. Dr. Whitney is a principal in a group that controls the mining claims underlying one of GPXM's principal exploration and development properties. At December 31, 2004 WWI owned 123,198 restricted GPXM shares. At December 31, 2003 WWI owned 736,442 restricted GPXM shares. The initial Rule 144 one year period for resale began in April 2000, and continues monthly thereafter. Total revenue from GPXM for 2004 and 2003 was \$224,039 and \$146,893, respectively. A total of \$101,281 and \$13,707 is included in accounts receivable at December 31, 2004 and 2003, respectively. At December 31, 2004, the average bid/asked price for GPXM common was \$0.213, resulting in a value of shares held on that date of \$26,180. Included in the GPXM shares held at December 31, 2003 and 2002 are 300,000 and 1,050,000 restricted common shares, respectively, that were acquired by WWI purchasing \$0.10 options from Dr. Whitney and subsequently exercising the options by offsetting accounts receivable due it from GPXM. The purchase price of the options was \$109,275, which was determined at 85% of fair market value of the then current trading price



of GPXM, less the \$0.10 option price. This valuation method is under the same terms that WWI uses to accept GPXM

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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restricted common shares for its monthly services. Dr. Whitney accepted Company restricted common shares in the 2002 Equity Private Placement as payment for the options, which amounted to 1,365,938 shares plus an equal number of warrants with conversion prices ranging from \$0.08 to \$0.24 per share. The total cost to WWI of these GPXM shares was \$214,275 and the market value at December 31, 2002 was \$241,500. The 300,000 shares held at December 31, 2003 were valued at \$135,750 and had a cost of \$70,650.

During 2004 Dr. Whitney loaned WWI 103,765 shares of GPXM stock at a value of \$28,276. The loaned shares were sold by WWI for \$25,097, for a realized loss of \$3,179. The loan was repaid in 2004 by conversion into the Company's restricted common stock when Dr. Whitney exercised warrants he acquired in 2003. During the first quarter of 2002 Dr. Whitney loaned WWI 600,000 shares of GPXM stock at a value of \$105,000. The loaned shares were sold by WWI for \$83,045, for a realized loss of \$21,955. In 2002, WWI repaid 416,463 of the GPXM shares out of shares owned by it at a value of \$72,881 and a realized gain of \$35,587. During 2003 the remaining balance of the loan and accrued interest was paid by a combination of 87,283 GPXM shares, 250,000 shares of other marketable securities, and 150,461 Company restricted common shares. The portion of the loan paid in Company shares was converted into the \$0.08 per share Private Placement under the same terms and conditions as other investors, including an equal number of three year warrants. WWI realized a net gain of \$19,369 on the transaction.

During 2003 WWI's lease of a vehicle utilized by Dr. Whitney was completed. Dr. Whitney purchased the vehicle by financing it through a commercial lender. The purchase price was \$21,741 and the monthly payment for four years is \$531. WWI is leasing the vehicle from Dr. Whitney by making the monthly payments to the commercial lender and will acquire ownership of the vehicle when the loan is paid in full.

For related party transactions subsequent to December 31, 2004, see Note 16.

NOTE 11 - Lease Commitments and Rent Expense:

Operating Leases:

The Company leases its corporate office facility under a non-cancelable agreement which expires June 30, 2005. Monthly payments are \$4,912.

A wholly owned subsidiary of the Company, IMI, leases storage facilities on a month-to-month basis and, therefore, no long-term binding contractual obligation exists with regards to minimum lease payments. The monthly rent payment is \$1,000.

A wholly owned subsidiary of the Company, WWI, is committed under a non-cancelable agreement for the use of office space which expires July 31, 2006. The monthly lease payment totals \$2,430.

## ITRONICS INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Future minimum rental commitments at December 31, 2004, under these operating lease agreements are due as follows:

2005	\$58,632
2006	17,010
2007	-
2008	-
	\$75,642

Total rental expense included in the statements of operations for the years ended December 31, 2004 and 2003 is \$99,981 and \$105,867, respectively.

Capital Leases:

At varying dates in 1999 the Company's subsidiaries, WWI and IMI, entered into leases to finance the equipment for the manufacturing facility in Reno/Stead, Nevada and for computer equipment. The leases totaled \$987,315. Of this amount \$408,788 was received in cash, of which \$65,033 was in connection with two sale/leaseback transactions of computer and office equipment. The lease periods range from three to five years, and the total monthly lease payments are \$24,192. With the exception of two leases, all have buyout options for \$1 at the end of the lease. The remaining two leases have buyout provisions totaling \$9,667.

At varying dates in 2000 the Company and its subsidiaries entered into leases primarily for financing purposes. The leases totaled \$543,832, of which \$437,636 was received in cash. The lease periods range from three to five years, and the total monthly lease payments are \$13,737. All the leases have buyout options for \$1 at the end of the lease.

At varying dates in 2001 the Company and its subsidiaries entered into leases both for new plant equipment and for financing purposes. The leases totaled \$288,881, of which \$192,282 was received in cash. The lease periods range from four to five years, and the total monthly lease payments are \$7,413. All the leases have buyout options for \$1 at the end of the lease, with the exception of one lease which has a fair market value purchase option at the end of the lease, which is anticipated to be a nominal amount.

At varying dates in 2002 the Company and its subsidiaries entered into leases for new plant and office equipment. The leases totaled \$209,502. The lease periods range from three to five years, and the total monthly lease payments are \$2,914. All the leases have buyout options for \$1 at the end of the lease.

At varying dates in 2003 the Company and its subsidiaries entered into leases for automotive and office equipment. The leases totaled \$31,008. The lease periods are for four years, and the total monthly lease payments are \$807. All the leases have buyout options for \$1 at the end of the lease.

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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In January 2004 the Company and its subsidiaries entered into a lease for office equipment. The lease totaled \$2,236, with a lease period of four years, and total monthly lease payments of \$66. The lease has a buyout option for \$1 at the end of the lease.

As of December 31, 2004 lease payments totaling \$741,597 were in arrears. As required by U.S. Generally Accepted Accounting Principles, the principal balance of the leases that are in default are classified as a current liability. Some of the lessors have filed suit to recover the amounts due under the leases. The present status of these actions is discussed in Note 15. The Company is making ongoing payment arrangements with these and the other lessors to avoid action that may be adverse to the Company.

All of the above described leases are secured by the equipment acquired or financed under the lease.

Future minimum lease commitments at December 31, 2004 are due as follows:

	Unrelated	Related
	<u>Parties</u>	<u>Party</u>
2005	\$ 974,123	\$ 6,370
2006	-	6,370
2007	-	2,655
2008	-	-
2009	-	-
	974,123	15,395
Less: amounts representing interest	(166,377)	(831)
	\$ 807,746	\$14,564

NOTE 12 - Business Segments:

The Company and its subsidiaries operate primarily in two business segments as identified in Note 1. The following defines business segment activities:

Photochemical Fertilizer: Photochemical recycling, Silver recovery,  
Fertilizer production and Sales

Mining Technical Services: Mining industry services

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

The photochemical fertilizer segment operates principally in Northern Nevada and Southern California and, to a lesser extent, Northern California. The primary source of revenue for this segment is from the pick-up and processing of photochemicals, recovery of silver therefrom, and sales of GOLD n GRO fertilizer products. The customer base is diverse and includes organizations in the photo-processing, printing, x-ray and medical fields. Fertilizer sales are concentrated in the same geographic markets and the customer base is principally in commercial markets, including golf courses, turf farms, and specialty agriculture which includes vegetables, fruit and nut trees, and wine and table grapes.

The mining technical services segment performs its services primarily out of the Company's Reno, Nevada offices, but its source of clients is not limited to organizations based locally. It has served both national and international clients in the past. As discussed in Note 4, at present the segment is serving primarily two clients in the gold mining industry, who have several operations in different areas of the United States.

The Company measures segment performance based on net income or loss. At present there are no intercompany revenues. Costs benefiting both segments are incurred by both the Company and by Whitney & Whitney, Inc. Such costs are allocated to each segment based on the estimated benefits to the segment. General and administrative costs incurred by the Company that have no other rational basis for allocation are divided evenly between the segments. Cost allocation percentages are reviewed annually and are adjusted based on expected business conditions for the year.

Reconciliation of segment revenues, cost of sales, gross profit (loss), operating income (loss), other income (loss) and net income (loss) to the respective consolidated amounts follows:

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Revenues		
Photochemical Fertilizer	\$1,422,929	\$ 936,913
Mining Technical Services	297,120	331,874
Consolidated Revenues	\$1,720,049	\$1,268,787
Cost of Revenues		
Photochemical Fertilizer	\$1,457,616	\$1,119,831
Mining Technical Services	230,137	308,809
Consolidated Cost of Revenues	\$1,687,753	\$1,428,640
Gross Profit (Loss)		
Photochemical Fertilizer	\$(34,687)	\$(182,918)
Mining Technical Services	66,983	23,065
Consolidated Gross Profit (Loss)	\$ 32,296	\$(159,853)
Operating Income (Loss)		
Photochemical Fertilizer	\$(2,024,481)	\$(1,834,621)
Mining Technical Services	(382,145)	(359,324)
Consolidated Operating Income (Loss)	\$(2,406,626)	\$(2,193,945)
Other Income (Expense)		
Photochemical Fertilizer	\$(602,213)	\$(1,014,821)
Mining Technical Services	168,967	456,475
Consolidated Other Income (Expense)	\$(433,246)	\$(558,346)

Net Income (Loss)		
Photochemical Fertilizer	\$(2,626,694)	\$(2,849,442)
Mining Technical Services	(213,178)	97,151
Consolidated Net Income (Loss) before taxes	\$(2,839,872)	\$(2,752,291)

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

Other segment information:	<u>2004</u>	<u>2003</u>
Capital expenditures by business segment:		
Photochemical Fertilizer	\$243,989	\$46,419
Mining Technical Services	4,477	32,426
Consolidated Capital Expenditures	\$248,466	\$78,845
Depreciation and amortization expense by business segment:		
Photochemical Fertilizer		
Depreciation	\$173,555	\$175,568
Amortization	119,324	120,952
	292,879	296,520
Mining Technical Services		
Depreciation	16,462	19,188
Amortization	16,064	21,030

32,525 40,218

Consolidated Depreciation and Amortization	\$325,404	\$336,738
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General and administrative expenses of \$153,887 and \$179,761 incurred by Itronics Inc. were equally divided between the two segments for 2004 and 2003, respectively.

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## ITRONICS INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

Identifiable assets by business segment (net of accumulated depreciation, accumulated amortization, and allowance for doubtful accounts):

<u>ASSET DESCRIPTION</u>	2004		2003	
	PHOTO-	MINING	PHOTO-	MINING
	CHEMICAL	TECHNICAL	CHEMICAL	TECHNICAL
	<u>FERTILIZER</u>	<u>SERVICES</u>	<u>FERTILIZER</u>	<u>SERVICES</u>
Current Assets				
Cash	\$ 4,370	\$ 420	\$ 6,249	\$ 25,753
Accounts receivable, net	73,339	115,466	71,197	25,187
Marketable securities	-	26,180	-	413,240
Inventories	569,878	1,826	423,699	1,826
Prepaid expenses	23,015	13,711	39,371	3,049
	670,602	157,603	540,516	469,055
Property and Equipment, net				
Land	215,000	-	215,000	-
Building and improvements	1,026,356	-	1,058,798	-

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Construction in progress,				
manufacturing facility	121,171	-	102,203	-
Equipment and furniture	1,116,920	25,601	1,021,596	54,054
Vehicles	7,136	-	21,501	-
Equipment under capital lease-				
equipment and furniture	503,772	81,522	542,133	105,603
Equipment under capital lease-				
Vehicles	20,394	15,219	29,816	19,567
	3,010,749	122,342	2,991,047	179,224
Other Assets, net				
Patents, trademarks, and other	8,435	-	8,483	-
Marketable securities	-	-	-	120,000
Inter-company investments/loans	-	1,234,257	-	1,782,550
Deposits	9,760	12,567	11,180	15,197
Deferred loan fees	48,654	-	85,347	4,539
	66,849	1,246,824	105,010	1,922,286
	\$3,748,200	\$1,526,769	\$ 3,636,573	\$2,570,565

Reconciliation of segment assets to consolidated assets:

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003



	<u>2004</u>	<u>2003</u>
Total Assets:		
Photochemical Fertilizer	\$3,748,200	\$ 3,636,573
Mining Technical Services	1,526,769	2,570,565
Total Segment Assets	5,274,969	6,207,138
Itronics Inc. assets	22,504,867	20,587,504
Less: inter-company elimination	(23,631,896)	(22,354,134)
Consolidated Assets	\$4,147,940	\$ 4,440,508

## NOTE 13 - Going Concern:

The Company's consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company and its subsidiaries have reported recurring losses from operations, including a net loss of \$2,839,872 during the year ended December 31, 2004, a negative working capital of \$3,215,298, and a stockholders' deficit balance of \$2,564,270 as of December 31, 2004. These factors indicate the Company and its subsidiaries' ability to continue in existence is dependent upon their ability to obtain additional long-term debt and/or equity financing and achieve profitable operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company and its subsidiaries be unable to continue in existence.

Prior to acquiring Whitney & Whitney, Inc. in 1988, the Company registered 1,777,000 common shares for public offering. Due to security law changes immediately subsequent to the offering, the offering did not raise sufficient equity capital to complete the Company's business plan. In order to solve the Company's liquidity problems, management implemented a plan of obtaining equity through private placements of common shares, convertible debt, conversion of debt to common shares, and payment of consulting and other labor services with common shares.

In addition to continuing the above described efforts, development of the technology necessary to manufacture fertilizer from photochemicals has been completed. In March 1998 the Company's subsidiary, Itronics Metallurgical, Inc., signed a definitive manufacturing and distribution agreement with Western Farm Services, Inc. (WFS). The agreement gives WFS the exclusive license and right to manufacture and market the GOLD n GRO line of fertilizer products in the states of Arizona, California, Hawaii, Idaho, Oregon and Washington. The agreement is for five years, with five year renewal options. In March 2003 the companies entered the second five year term of the agreement.

DECEMBER 31, 2004 AND 2003

A summary of the results of efforts to raise funds through various private placements over the last several years is presented in Note 6.

NOTE 14 - Off-Balance Sheet Risks and Concentration of Credit Risk:

The Company occasionally maintains bank deposits in excess of federally insured limits. The Company's risk is managed by maintaining its accounts in one of the top five largest banks in the country.

As of December 31, 2004, a significant portion of the Company's accounts receivable is concentrated with one fertilizer distribution company. This concentration of credit risk is somewhat mitigated due to the fact that the distribution company is one of the largest fertilizer distribution companies in the country.

Increase or decrease in photochemical recycling service and silver extraction revenues has a direct relationship with federal, state, and local regulations and enforcement of said regulations. Fertilizer revenues could be impacted by crop cycles, seasonal variations, and weather patterns.

The ability to recognize a net profit from silver recovery sales is based on the fair market value of silver (Handy & Harmon five day average) at the time the photochemicals are obtained versus the fair market value of silver when recovered silver is sold. Most customers are given an 80% silver credit against recycling services based on the content of silver in the photochemicals. If the fair market value of silver declines, the possibility exists that the 80% credit, plus operating costs associated with the silver extraction, could exceed the revenues generated at the time the silver is sold.

Management's long term plan to reduce the market risk of silver is to increase the volume of photochemicals and the resultant silver recovery, and then to implement a hedging program in which silver will be sold forward, thereby matching the price to be received to the price paid to the Company's customers.

As a handler of photochemical materials, and a seller of liquid fertilizers, the Company is subject to various federal, state, and local environmental, safety, and hazardous waste regulations and state fertilizer registration requirements. The Company believes that its policies and procedures for handling hazardous wastes are in compliance with the applicable laws and regulations and are consistent with industry standards. Costs for these compliance activities are expensed as incurred. As the Company's photochemical fertilizer business expands, the various laws and regulations that are applicable to the Company's activities will change. During 1996, the Company received concurrence from the State of Nevada environmental officials that the Company's photochemical fertilizer process meets the existing requirements for exemption from all environmental regulations, except toxic metal content standards, and with the exception that certain presently conducted lab analyses of the photochemicals will continue to be required. Certain of the Company's large scale customers presently meet the exemption

requirements. Now that all the photochemicals are utilized in the fertilizer or other commercial products, all the Company's customers are arguably exempt.

NOTE 15 Legal Proceedings

The Company may become involved in a lawsuit or legal proceeding at any time in the ordinary course of business. Litigation is subject to inherent uncertainties, and an unexpected adverse result may arise that may adversely affect our business. Certain lawsuits have been filed against us for collection of funds due that are delinquent, as described below. The Company is currently not aware of any litigation pending or threatened for any reason other than collection of funds due and already recorded. The Company is not aware of any additional legal proceeding or claims that the Company believes will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

As of December 31, 2004 total recorded liabilities of \$786,471 including accrued interest to December 31, 2004, were subject to a total of 15 separate lawsuits for the collection of the funds due. These include 12 leases totaling \$626,372 (reflected in Current Maturities of Capital Lease Obligations) plus \$20,260 in additional interest (reflected in Accrued Interest) and three trade payables totaling \$131,286 (reflected in Accounts Payable) plus \$8,553 in additional interest (reflected in Accrued Interest). The leases are individually secured by specified equipment.

The accrued interest noted above was recorded based on our assessment of additional amounts we believe is probable and is related to three cases originally seeking \$251,522; the creditors have received judgments in these cases. The Company will continue to accrue interest until these cases are settled or paid in full.

The Company estimates an additional \$58,500 interest may be reasonably possible on other cases; however, the Company has not accrued this amount because it does not believe it is probable to be incurred. This estimate is related to six cases. In one case, there is a negotiated payment agreement with a remaining balance of approximately \$19,500. Our last payment was made in December 2004 and no contact or other collection action has been taken since then. A second case, claiming \$35,210, was filed in March 2003. No contact or other collection action has taken place since then. A third case, seeking \$171,853, is being actively negotiated by legal counsel and a settlement offer to pay the balance over approximately 46 months has been received. The remaining three cases, seeking a total of \$181,672, are being actively negotiated with a local law firm. It has been our experience that if the Company is able to pay an account in full, the creditor will accept a discount, in some cases a substantial discount, to get the case settled. In the event the Company has not been able to fully pay a claim, creditors have been willing to accept extended payment terms.

The Company has a total of six cases, that originally sought \$325,345, that we deem to have a remote possibility of incurring an additional unrecorded

loss. The Company has negotiated payment agreements on these cases and, as of December 31, 2004, the recorded liability for these cases was \$122,313. Three of the cases are paid current under the settlements agreements and three are delinquent, but no further collection action has been taken by the lenders.

As of December 31, 2004 our subsidiaries were delinquent on approximately \$206,200 in federal payroll taxes. These amounts are included Accrued expenses in the Balance Sheet. The Company engaged a consultant to assist in working with the IRS to formulate a payment plan. A plan was negotiated to pay specified portions of the liability on or before January 31, 2005 and on the fifteenth of each month beginning March 15, 2005 until paid off on May 15, 2005. The Company made the required payments in January and March 2005, and paid a total of \$115,586, but did not make the subsequent payments as they became due. The Company received notice of intent to levy on the subsidiaries IMI and ICI for a total amount due of \$93,273. The notices were dated May 12, 2005. The IRS also filed federal tax liens for the amounts due.

Successful settlement of the above claims is dependent on future financing.

#### NOTE 16 - Subsequent Events:

The following summarizes common stock issued from January 1, 2005 through May 19, 2005 and common stock to be issued as of March 31, 2005 :

	—			
	<u>ISSUED</u>		<u>TO BE ISSUED</u>	
	<u>SHARES</u>	<u>AMOUNT</u>	<u>SHARES</u>	<u>AMOUNT</u>
Labor and consulting services	3,770,790	\$276,670	6,792,940	\$548,140
Director fees	12,500	1,025	5,000	500
Interest on deferred salaries	191,864	12,726	630,475	53,030
Loan conversions-officer	3,025,000	170,000	-	-
Convertible notes payable converted	8,193,081	835,230	-	-
Private placement for cash	11,850,000	592,500	-	-
Acquisition of GOLD n GRO Guardian	1,000,000	71,500	-	-
	28,043,235	\$1,959,651	7,428,415	\$601,670

\$583,030 in salary and interest remains unissued as of the May 19, 2005 to conserve cash otherwise needed to pay payroll taxes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

NOTE 17 Earnings (Loss) Per Share:

Following is a reconciliation of Net Income (Loss) and Weighted average number of shares outstanding, in the computation of earnings (loss) per share (EPS) for the years ended December 31, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Net Income (Loss)	\$(2,839,872)	\$(2,752,291)
Less: Preferred stock dividends	-	-
Basic EPS income (loss) available to common stockholders	\$(2,839,872)	\$(2,752,291)
Weighted average number of shares outstanding	141,941,235	103,994,400
Common equivalent shares	-	-
	141,941,235	103,994,400
Per share amount	\$(0.020)	\$(0.026)

Warrants, options, and shares to be issued, totaling 62,953,132 and 68,633,857 shares as of December 31, 2004 and 2003, respectively, would dilute future EPS. No diluted EPS is presented as the effect of including these shares is antidilutive.

ITEM 14.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Following is a summary of the aggregate fees billed for professional service by the Company's principal accountants.

	<u>2004</u>	<u>2003</u>
Audit fees	\$62,685	\$37,000

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Audit related fees	1,100	1,400
Tax fees	-	500
All other fees	-	-
Total	\$63,785	\$38,900

The audit related fees listed above pertain to the issuance of cold comfort letters related to the Company's exercise of its put rights under the Swartz agreement and the issuance of consent letters for inclusion in S-8 registration statements.

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

The Company does not have an audit committee and consequently the entire Board of Directors serves in that capacity. The Board's pre-approval policy regarding professional services provided by the Company's principal accountant is to pre-approve the engagement of the principal accountant for the performance of all professional services. The policy does provide a waiver of pre-approval in the event that such services, in the aggregate, will be less than 5% of the audit fee, such services are not recognized as non-audit fees at the time of the engagement, and pre-approval is obtained from a designated member of the Board prior to the engagement. Until such time as an audit committee is appointed, the designated individual is the Principal Executive Officer, currently the President of the Company. 100% of the 2003 non-audit fees were pre-approved by the designated Board member and subsequently approved by the Board.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ITRONICS INC.

Date: January 6, 2006

By: /S/ JOHN W. WHITNEY

John W. Whitney

President, Treasurer and Director

(Principal Executive Officer)

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Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Date: January 6, 2006

By: /S/ JOHN W. WHITNEY

John W. Whitney  
President, Treasurer and Director  
(Principal Executive and Financial  
Officer)

Date: January 6, 2006

By: /S/ MICHAEL C. HORSLEY

Michael C. Horsley  
Controller  
(Principal Accounting Officer)

Date: January 6, 2006

By: /S/ HOWLAND S. GREEN

Howland S. Green  
Director