



imaging technologies for global markets



2003

third quarter report

COMMON STOCK

IKONICS Corporation common stock is traded on the Nasdaq SmallCap market under the symbol IKNX. A market in IKONICS Corporation common stock is maintained by:

Van Clemens & Co. Inc.

527 Marquette Ave. S
Suite 2000
Minneapolis, MN 55402
612-758-9140

Monroe Securities

47 State Street
Rochester, NY 14614
716-546-5560 • 1-800-566-5560

Howe Barnes Investments

135 So. LaSalle Ave.
Chicago, IL 60603
1-800-275-4693

TRANSFER AGENT

Wells Fargo Shareowner Services

PO Box 64854
St. Paul, MN 55164-0854

Shareholders with questions on stock holdings, transfer requirements and address changes contact Wells Fargo Bank at 651-450-4064 or 800-468-9716 .

ADDITIONAL FINANCIAL INFORMATION

Contact: Jon Gerlach, Chief Financial Officer
PH: 218-628-2217 • Fax: 218-628-3245
E-mail: jgerlach@ikonics.com

IKONICS CORPORATION

4832 Grand Avenue • Duluth, MN 55807
www.ikonics.com • info@ikonics.com

Summary of Quarterly Statements

(Thousands of Dollars)

Quarter Ended	2003			2002			2001		
	Sales	Net Income	Earnings Per Share	Sales	Net Income	Earnings Per Share	Sales	Net Income (Loss)	Earnings (Loss) Per Share
March 31	\$ 2,831	\$ 30	\$.02	\$ 2,782	\$ 23	\$.02	\$ 2,858	\$ 88	\$.07
June 30	3,162	156	.13	3,164	131	.11	2,691	(29)	(.02)
September 30	3,062	139	.11	2,971	86	.07	2,520	(74)	(.06)
December 31	\$ 9,055	\$ 325	\$.26	\$ 11,797	\$ 360	\$.29	\$ 10,752	\$ (206)	\$ (.16)

Unaudited interim financial information

November 4, 2003

IKONICS CORPORATION

To Our Stockholders:

Profits increased 62% in the third quarter of 2003 to \$139,000, or \$0.11 per share. Sales in the quarter were \$3,062,000, a 3% increase over the third quarter of 2002.

These results were led by both sales and margin improvement in our export markets as well as in our domestic abrasive etching market. The strong increase in earnings occurred in spite of a \$94,000 write down of inventory and accounts receivable. This write down is consistent with our policy of maintaining adequate reserves and writing down impaired assets in a timely manner. Net earnings were positively affected by a lower tax rate related to the preferential treatment of export sales.

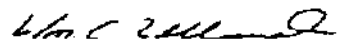
The company's financial health remains excellent. Year to date, we have generated a positive net cash flow of \$866,000 and now hold cash and cash equivalents of \$1,250,000. Although cash flow is affected by investments and the timing of payments, we believe these results reflect the strength of our business.

During the quarter we introduced our reformulated RapidMask™ photoresist films to customers in North America and Asia and the reaction has exceeded our expectations. The new RapidMask not only makes abrasive etching an easier process, but these films give our customers the ability to take etched products to a new level of quality. We are actively investigating the applications of this new technology to the architectural, gift/collectables, and signage markets.

Our technical staff is currently working on our metal imaging technology, improved screen print technologies and further improvements to RapidMask.

I am optimistic for the rest of this year and believe we are laying the groundwork for growth and further improvement in profits for 2004 and beyond.

For the Board of Directors,



William C. Ulland
Chairman, President & CEO

This letter contains forward-looking statements regarding sales, earnings, and new products that involve risks and uncertainties. The company's actual results could differ materially as a result of domestic and global economic conditions, competitive market conditions, acceptance of new products, the ability to identify and make suitable acquisitions, as well as the factors described in the company's filings with the SEC.

Statements of Operations

For the Three and Nine Month Periods Ending September 30, 2003 and 2002

	Three Months Ending		Nine Months Ending	
	9/30/03	9/30/02	9/30/03	9/30/02
Sales	\$ 3,061,503	\$ 2,970,798	\$ 9,053,881	\$ 8,917,425
Costs, expenses, and other income	<u>2,871,804</u>	<u>2,8444,372</u>	<u>8,568,248</u>	<u>8,553,636</u>
Loss on Investment	\$ _____	\$ _____	\$ (74,666)	\$ _____
Income before taxes	189,699	126,426	410,967	363,789
Federal and state income tax expense	<u>50,858</u>	<u>40,614</u>	<u>85,968</u>	<u>123,689</u>
Net income	\$ <u>138,841</u>	\$ <u>85,812</u>	\$ <u>324,999</u>	\$ <u>240,100</u>
Earnings per common share - diluted	\$ <u>.11</u>	\$ <u>.07</u>	\$ <u>.26</u>	\$ <u>.19</u>
Average shares outstanding - diluted	1,266,964	1,248,963	1,258,754	1,253,390

Balance Sheets

as of September 30, 2003 and December 31, 2002

	9/30/03	12/31/02
Assets		
Current Assets	\$ 5,406,085	\$ 4,630,281
Property, Equipment, Patents & Licenses	1,343,705	1,295,544
Investment	112,834	187,500
Other Intangible	78,334	180,834
Deferred Taxes	<u>115,000</u>	<u>118,000</u>
	\$ <u>7,055,958</u>	\$ <u>6,412,159</u>
Liabilities and Equity		
Current Liabilities	\$ 865,584	\$ 545,496
Long Term Debt	0	0
Stockholders' Equity	<u>6,190,374</u>	<u>5,866,663</u>
	\$ <u>7,055,958</u>	\$ <u>6,412,159</u>

Statements of Cash Flow

For Nine Months Ending September 20, 2003 and 2002

	9/30/03	9/30/02
Cash flows from operating activities	\$ 1,061,979	\$ 122,517
Cash flows used in investing activities	(195,779)	(156,990)
Cash flows used in financing activities	_____	<u>(72,492)</u>
Net (decrease) increase in cash and cash equivalents	866,200	(106,965)
Cash and cash equivalents at beginning of period	<u>384,107</u>	<u>543,679</u>
Cash and cash equivalents at end of period	\$ <u>1,250,307</u>	\$ <u>436,714</u>

Unaudited interim financial information
(Some columns may not add due to rounding)