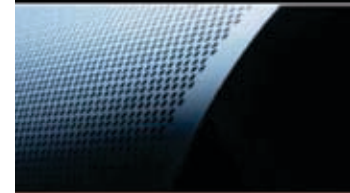




CHROMALINE



MICRO-MACHINING SOLUTIONS



IKONICS IMAGING



INDUSTRIAL INKJET SOLUTIONS



INTERNATIONAL



Common Stock

IKONICS Corporation common stock is traded on the Nasdaq Capital Market under the symbol IKNX.

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:

(800) 468-9716

For Additional Financial Information Contact:

Jon Gerlach
Chief Financial Officer

Phone: 218-628-2217
Fax: 218-628-3245
E-mail: jgerlach@ikonics.com



4832 Grand Avenue • Duluth, MN 55807
Phone: 218-628-2217 • Fax: 218-628-3245
www.ikonics.com • info@ikonics.com

Summary of Quarterly Statements

(Thousands of Dollars, Except Per Share Information)

| Quarter Ended | 2011 | | | | 2010 | | | | 2009 | | | |
|---------------|-----------|------------|--------------------|-----------|------------|--------------------|-----------|-------------------|---------------------------|-----------|-------------------|---------------------------|
| | Net Sales | Net Income | Earnings Per Share | Net Sales | Net Income | Earnings Per Share | Net Sales | Net Income (loss) | Earnings (loss) Per Share | Net Sales | Net Income (loss) | Earnings (loss) Per Share |
| March 31 | \$3,653 | \$37 | \$0.02 | \$3,685 | \$148 | \$0.08 | \$3,563 | \$53 | \$0.03 | \$3,563 | \$53 | \$0.03 |
| June 30 | 4,587 | 310 | 0.16 | 4,248 | 343 | 0.17 | 3,787 | 147 | 0.07 | 3,787 | 147 | 0.07 |
| September 30 | | | | 4,141 | 287 | 0.15 | 3,921 | (709) | (0.36) | 3,921 | (709) | (0.36) |
| December 31 | \$8,241 | \$347 | \$0.17 | 4,444 | 335 | 0.17 | 3,851 | 202 | 0.10 | \$15,122 | \$(307) | \$(0.16) |
| | | | | \$16,517 | \$1,114 | \$0.56 | | | | | | |

Unaudited Interim Financial Statements

(Some columns may not add due to rounding)

To Our Stockholders:

I am pleased to report record sales of \$4,587,000 in the second quarter of 2011. This represents a 26% increase over the first quarter of 2011 and an 8% increase over the second quarter of 2010. For the quarter, however, earnings fell 10% to \$310,000 or \$0.16 per share compared to \$0.17 per share for the corresponding 2010 quarter. The fall in earnings is primarily attributable to the rising cost of petrochemicals and expenses related to the Company's new business initiatives.

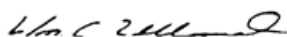
The growth in sales is welcome: Export and IKONICS Imaging are showing healthy growth while Domestic Chromaline has improved substantially from the first quarter. Micro-Machining continues its robust growth, but DTX has been hindered by the unavailability of the specialized inkjet printers needed for the process.

The printer bottleneck appears to be resolved, and I anticipate an increase in consumable sales in the second half of 2011 and accelerating thereafter as printers become available. The production printer now being manufactured by Colour Scan Technology is producing an excellent product using new state-of-the art print heads coupled with our fluids and films. DTX technology is now being recognized for its quality and labor savings as the new industry standard for mold texturing and related rapid prototyping. An Illinois Tool Works printer should be in the market by the fourth quarter, and we anticipate that it too will produce an outstanding product for the mold texturing industry. In most cases, the printers will be sold directly by the manufacturers, and IKONICS will benefit through the sales of consumable fluids and films.

On August 15, Karl Shaw, PhD and former President of Standex Engraving, joined IKONICS in his new position as Director of New Technologies. I am very pleased Karl came aboard. In addition to a deep background in the mold texturing industry, he has broad expertise in materials science and will assist our ongoing efforts to enter new, profitable markets.

In spite of the current economic uncertainties, I believe our new offerings, which improve efficiency and enhance quality for industrial customers world-wide, will be drivers of growth for IKONICS. We plan to continue our stock buy-back program in an effort to take advantage of any undervaluation we believe may exist in IKONICS shares.

For the Board of Directors,



WILLIAM C. ULLAND

Chairman, President & CEO

Condensed Statements of Operations (unaudited) For the Three Months and Six Months Ended June 30, 2011 and 2010

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | 06/30/11 | 06/30/10 | 06/30/11 | 06/30/10 |
| Net sales | \$4,587,432 | \$4,248,055 | \$8,240,531 | \$7,932,632 |
| Cost of goods sold | 2,733,442 | 2,418,296 | 4,919,698 | 4,619,078 |
| Gross profit | 1,853,990 | 1,829,759 | 3,320,833 | 3,313,554 |
| Operating expenses | 1,405,183 | 1,326,973 | 2,848,735 | 2,688,066 |
| Income from operations | 448,807 | 502,786 | 472,098 | 625,488 |
| Interest income | 4,781 | 3,886 | 9,343 | 7,405 |
| Income before income taxes | 453,588 | 506,672 | 481,441 | 632,893 |
| Income tax expense | 144,042 | 163,400 | 134,553 | 141,280 |
| Net income | <u>\$ 309,546</u> | <u>\$ 343,272</u> | <u>\$ 346,888</u> | <u>\$ 491,613</u> |
| Earnings per common share-diluted | <u>\$ 0.16</u> | <u>\$ 0.17</u> | <u>\$ 0.17</u> | <u>\$ 0.25</u> |
| Average shares outstanding-diluted | 1,987,662 | 1,974,158 | 1,984,040 | 1,970,587 |

Condensed Balance Sheets As of June 30, 2011 and December 31, 2010

| | 06/30/11 (unaudited) | 12/31/10 |
|---|-------------------------|----------------------|
| Assets | | |
| Current assets | \$ 8,398,279 | \$ 7,811,830 |
| Property, plant and equipment, net | 4,930,534 | 5,012,933 |
| Intangible assets, net | 333,936 | 317,168 |
| | <u>\$ 13,662,749</u> | <u>\$ 13,141,931</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | \$ 878,808 | \$ 777,984 |
| Deferred income taxes | 171,000 | 171,000 |
| Long-term debt | - | - |
| Stockholders' equity | 12,612,941 | 12,192,947 |
| | <u>\$ 13,662,749</u> | <u>\$ 13,141,931</u> |

Condensed Statements of Cash Flow (unaudited) For Six Months Ended June 30, 2011 and 2010

| | Six Months Ended | |
|---|---------------------|---------------------|
| | 06/30/11 | 06/30/10 |
| Net cash provided by (used in) operating activities | \$ (83,848) | \$ 662,122 |
| Net cash used in investing activities | (170,311) | (932,518) |
| Net cash provided by financing activities | 66,131 | 33,990 |
| Net decrease in cash | (188,028) | (236,406) |
| Cash at beginning of period | 1,291,383 | 1,304,586 |
| Cash at end of period | <u>\$ 1,103,355</u> | <u>\$ 1,068,180</u> |

Unaudited interim financial information.

The preceding letter contains statements regarding future financial results, new products, and other matters 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 most recent Form 10-K and most recent Form 10-Q on file with the SEC.