



IKONICS

C O R P O R A T I O N

Bringing unique imaging solutions to the people of the world...

2006 THIRD QUARTER REPORT

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 651-450-4064 or 800-468-9716.

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Summary of Quarterly Statements

(Thousands of Dollars, Except Per Share Information)

Quarter Ended	2006			2005			2004		
	Net Sales	Net Income	Earnings Per Share	Net Sales	Net Income	Earnings Per Share	Net Sales	Net Income	Earnings Per Share
March 31	\$3,372	\$98	\$0.05	\$3,329	\$24	\$0.01	\$3,383	\$161	\$0.08
June 30	4,100	347	0.17	3,742	275	0.14	3,683	274	0.14
September 30	3,674	285	0.14	3,462	287	0.14	3,324	205	0.10
December 31				3,438	322	0.16	3,292	118	0.06
	\$11,145	\$731	\$0.36	\$13,971	\$908	\$0.46	\$13,682	\$758	\$0.38

Unaudited Interim Financial Statements
 (Some columns may not add due to rounding)

November 27, 2006

To Our Shareholders:

We experienced record third quarter sales of \$3,674,000, a 6% increase over the third quarter of 2005. Earnings were basically flat at \$285,000, or \$0.14 cents per share, 1% below the \$287,000 earned in the third quarter of 2005. Year to date sales are up 6% and earnings are up 25% to \$0.36 per share over the first three quarters of 2005.



The flat earnings growth for the quarter reflects heavy new product development and launch expenses in addition to expenses related to the IKONICS' biennial screen print trade show.

Our new product initiatives continue to show considerable promise, while requiring significant R&D and product launch expenses. We have received much interest from an article published in Machine Design Magazine about our industrial etching technology, and our industrial ink jet technology has received positive reviews from potential customers. I believe these and other new products are changing the face of IKONICS, as we venture into new markets with exciting new technologies.

Importantly, our traditional lines of business are growing and remain profitable. Our cash flow is excellent, and we have a cash balance of nearly \$4,000,000 dollars for acquisitions and strategic investments such as in Imaging Technology International where we made an additional investment during the third quarter.

For the Board of Directors,

William C. Ulland
Chairman, President & CEO

IKONICS CORPORATION

Condensed Statements of Operations (unaudited)

For the Three Months and Nine Months Ended September 30, 2006 and 2005

	Three Months Ended		Nine Months Ended	
	9/30/06	9/30/05	9/30/06	9/30/05
Net Sales	\$3,673,830	\$3,462,253	\$11,145,304	\$10,532,775
Costs and expenses net of interest income	3,262,067	3,045,639	10,086,829	9,702,465
Income before income taxes	411,763	416,614	1,058,475	830,310
Income tax expense	126,810	129,150	327,751	243,929
Net income	\$ 284,953	\$ 287,464	\$ 730,724	\$ 586,381
Earnings per common share-diluted	\$ 0.14	\$ 0.14	\$ 0.36	\$ 0.30
Average shares outstanding-diluted	2,043,981	1,986,033	2,029,732	1,980,151

Condensed Balance Sheets

As of September 30, 2006 and December 31, 2005

Assets	9/30/06 (unaudited)	12/31/05
Current assets	\$ 8,464,823	\$7,728,358
Property, plant and equipment, net	862,987	951,565
Investment in non-marketable equity securities	865,160	450,790
Intangible assets	283,868	279,086
Deferred taxes	61,000	61,000
	\$10,537,838	\$9,470,799
Liabilities and Stockholders' Equity		
Current liabilities	\$ 1,073,382	\$ 992,294
Long term debt	-	-
Stockholders' equity	9,464,456	8,478,505
	\$10,537,838	\$9,470,799

Condensed Statements of Cash Flow (unaudited)

For Nine Months Ended September 30, 2006 and 2005

	9/30/06	9/30/05
Net cash provided by operating activities	\$ 797,419	\$ 606,004
Net cash used in investing activities	(446,247)	(334,476)
Net cash provided by financing activities	223,047	55,094
Net increase in cash and cash equivalents	574,219	326,622
Cash and cash equivalents at beginning of period	3,412,072	2,737,460
Cash and cash equivalents at end of period	\$3,986,291	\$3,064,082

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

The preceding letter contains statements regarding future financial results, new products, acquisitions, strategic investments 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-KSB and most recent Form 10-QSB on file with the SEC.