

**U.S. SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended September 30, 2021

or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-25727

**IKONICS CORPORATION**

(Exact name of registrant as specified in its charter)

**Minnesota**

(State or other jurisdiction of  
incorporation or organization)

**41-0730027**

(I.R.S. employer  
identification no.)

**4832 Grand Avenue  
Duluth, Minnesota**

(Address of principal executive offices)

**55807**

(Zip code)

**(218) 628-2217**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.10 per share	IKNX	Nasdaq Capital Market LLC

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$.10 par value - 1,981,527 shares outstanding as of November 10, 2021.



**IKONICS CORPORATION**  
QUARTERLY REPORT ON FORM 10-Q

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## PART I - FINANCIAL INFORMATION

## ITEM 1. Condensed Financial Statements

IKONICS CORPORATION  
CONDENSED BALANCE SHEETS

	September 30, 2021	December 31, 2020
<b>ASSETS</b>	(unaudited)	
<b>CURRENT ASSETS:</b>		
Cash	\$ 1,500,847	\$ 3,693,845
Trade receivables, less allowance of \$54,000 in 2021 and \$55,000 in 2020	1,875,177	2,119,213
Inventories	1,649,517	1,644,975
Prepaid expenses and other assets	183,516	125,969
Income taxes receivable	5,331	219,451
Total current assets	<u>5,214,388</u>	<u>7,803,453</u>
<b>PROPERTY, PLANT, AND EQUIPMENT, at cost:</b>		
Land and building	9,556,586	9,556,586
Machinery and equipment	5,273,968	5,263,586
Office equipment	1,420,494	1,417,219
Vehicles	222,120	245,674
	<u>16,473,168</u>	<u>16,483,065</u>
Less accumulated depreciation	(9,540,029)	(9,094,702)
Total property, plant and equipment at cost, net	<u>6,933,139</u>	<u>7,388,363</u>
INTANGIBLE ASSETS, less accumulated amortization of \$212,913 in 2021 and \$207,399 in 2020	232,679	243,583
Total assets	<u>\$ 12,380,206</u>	<u>\$ 15,435,399</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ —	\$ 2,688,396
Accounts payable	1,615,868	459,836
Accrued compensation	419,574	279,755
Other accrued liabilities	162,861	168,066
Total current liabilities	<u>2,198,303</u>	<u>3,596,053</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$.10 per share; authorized 250,000 shares; issued none	—	—
Common stock, par value \$.10 per share; authorized 4,750,000 shares; issued and outstanding 1,981,527 shares in 2021 and 1,976,354 in 2020	198,153	197,635
Additional paid-in-capital	2,981,620	2,743,930
Retained earnings	7,002,130	8,897,781
Total stockholders' equity	<u>10,181,903</u>	<u>11,839,346</u>
Total liabilities and stockholders' equity	<u>\$ 12,380,206</u>	<u>\$ 15,435,399</u>

See notes to condensed financial statements.

**IKONICS CORPORATION**  
**CONDENSED STATEMENTS OF OPERATIONS (Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
NET SALES	\$ 4,743,452	\$ 3,134,984	\$ 12,068,208	\$ 9,204,615
COST OF GOODS SOLD	3,161,362	2,261,205	8,060,482	6,792,709
GROSS PROFIT	1,582,090	873,779	4,007,726	2,411,906
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,274,054	979,773	5,402,147	3,963,100
RESEARCH AND DEVELOPMENT EXPENSES	134,608	136,520	398,425	521,334
LOSS FROM OPERATIONS	(826,572)	(242,514)	(1,792,846)	(2,072,528)
INTEREST EXPENSE	(103)	(24,592)	(102,443)	(70,699)
OTHER INCOME	20	39	5,195	8,722
LOSS BEFORE INCOME TAXES	(826,655)	(267,067)	(1,890,094)	(2,134,505)
INCOME TAX EXPENSE (BENEFIT)	25,081	6,929	5,557	(232,000)
NET LOSS	\$ (851,736)	\$ (273,996)	\$ (1,895,651)	\$ (1,902,505)
LOSS PER COMMON SHARE				
Basic	\$ (0.43)	\$ (0.14)	\$ (0.96)	\$ (0.96)
Diluted	\$ (0.43)	\$ (0.14)	\$ (0.96)	\$ (0.96)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	1,981,138	1,976,354	1,978,638	1,976,354
Diluted	1,981,138	1,976,354	1,978,638	1,976,354

See notes to condensed financial statements.

**IKONICS CORPORATION**
**STATEMENTS OF STOCKHOLDERS' EQUITY**
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 and 2020 (unaudited)**
**For the three months ended September 30, 2021:**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stock- holders' Equity
	Shares	Amount			
BALANCE AT JUNE 30, 2021	1,980,694	\$ 198,069	\$ 2,902,790	\$ 7,853,866	\$ 10,954,725
Net loss	—	—	—	(851,736)	(851,736)
Exercise of stock options	833	84	5,873	—	5,957
Stock based compensation	—	—	72,957	—	72,957
<b>BALANCE AT SEPTEMBER 30, 2021</b>	<b>1,981,527</b>	<b>\$ 198,153</b>	<b>\$ 2,981,620</b>	<b>\$ 7,002,130</b>	<b>\$ 10,181,903</b>

**For the three months ended September 30, 2020:**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stock- holders' Equity
	Shares	Amount			
BALANCE AT JUNE 30, 2020	1,976,354	\$ 197,635	\$ 2,729,338	\$ 7,708,592	\$ 10,635,565
Net loss	—	—	—	(273,996)	(273,996)
Stock based compensation	—	—	2,762	—	2,762
<b>BALANCE AT SEPTEMBER 30, 2020</b>	<b>1,976,354</b>	<b>\$ 197,635</b>	<b>\$ 2,732,100</b>	<b>\$ 7,434,596</b>	<b>\$ 10,364,331</b>

**For the nine months ended September 30, 2021:**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stock- holders' Equity
	Shares	Amount			
BALANCE AT DECEMBER 31, 2020	1,976,354	\$ 197,635	\$ 2,743,930	\$ 8,897,781	\$ 11,839,346
Net loss	—	—	—	(1,895,651)	(1,895,651)
Exercise of stock options	3,833	384	33,263	—	33,647
Restricted stock vested	1,340	134	(134)	—	—
Stock based compensation	—	—	204,561	—	204,561
<b>BALANCE AT SEPTEMBER 30, 2021</b>	<b>1,981,527</b>	<b>\$ 198,153</b>	<b>\$ 2,981,620</b>	<b>\$ 7,002,130</b>	<b>\$ 10,181,903</b>

**For the nine months ended September 30, 2020:**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stock- holders' Equity
	Shares	Amount			
BALANCE AT DECEMBER 31, 2019	1,976,354	\$ 197,635	\$ 2,721,962	\$ 9,337,101	\$ 12,256,698
Net loss	—	—	—	(1,902,505)	(1,902,505)
Stock based compensation	—	—	10,138	—	10,138
<b>BALANCE AT SEPTEMBER 30, 2020</b>	<b>1,976,354</b>	<b>\$ 197,635</b>	<b>\$ 2,732,100</b>	<b>\$ 7,434,596</b>	<b>\$ 10,364,331</b>



**IKONICS CORPORATION**  
**CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)**

	Nine Months Ended September 30,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,895,651)	\$ (1,902,505)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	468,881	499,899
Amortization	105,764	27,445
Stock based compensation	204,561	10,138
Net gain on sale and disposal of equipment	(4,800)	(2,325)
Loss on intangible asset abandonment	—	16,906
Changes in working capital components:		
Trade receivables	244,037	1,017,501
Inventories	(4,542)	24,723
Prepaid expenses and other assets	(57,548)	746,216
Income tax receivable	214,120	(240,082)
Accounts payable	1,156,032	(302,512)
Accrued expenses	134,614	(525,521)
Net cash provided by (used in) operating activities	<u>565,468</u>	<u>(630,117)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property equipment	(13,657)	(149,916)
Proceeds from sales of equipment	4,800	18,297
Purchases of intangible assets	(10,021)	(12,976)
Proceeds on sale of short-term investments	—	2,205,000
Net cash (used in) provided by investing activities	<u>(18,878)</u>	<u>2,060,405</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from paycheck protection program loan	—	1,214,500
Payment on long-term debt	(2,773,235)	(107,554)
Proceeds from exercise of stock options	33,647	—
Net cash (used in) provided by financing activities	<u>(2,739,588)</u>	<u>1,106,946</u>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(2,192,998)</b>	<b>2,537,234</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b><u>3,693,845</u></b>	<b><u>963,649</u></b>
<b>CASH AT END OF PERIOD</b>	<b><u>\$ 1,500,847</u></b>	<b><u>\$ 3,500,883</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 24,089	\$ 56,834
Net cash received (paid for) income taxes, net	<u>\$ 208,562</u>	<u>\$ (8,082)</u>

See notes to condensed financial statements.

**IKONICS CORPORATION**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

(Unaudited)

1. Basis of Presentation

The condensed balance sheet of IKONICS Corporation (the “Company”) as of September 30, 2021, and the related condensed statements of operations for the three and nine months ended September 30, 2021 and 2020, the condensed statements of stockholders' equity for the three and nine months ended September 30, 2021 and 2020, and condensed cash flows for the nine months ended September 30, 2021 and 2020, have been prepared without being audited.

In the opinion of management, these statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of IKONICS Corporation as of September 30, 2021, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

The Company relies on cash flow generated from operations and available cash balances to fund its working capital and other operating and investing needs. Additionally, the Company has access to its bank line of credit. The Company’s ability to borrow under the bank line of credit is based on its ability to continue to renew the maturity date of the bank line of credit.

The global, regional and local spread of COVID-19 resulted in significant global mitigation measures, including government-directed quarantines, social distancing and shelter-in-place mandates, travel restrictions and/or bans, and restricted access to certain corporate facilities and manufacturing sites. Even though many of these government mandated restrictions have been lifted, uncertainty with respect to the severity and duration of the pandemic has contributed to periods of volatility and disruption of financial markets. While the severity and duration of the COVID-19 pandemic remain uncertain, impacts to the Company may include, but are not limited to: fluctuations in the Company’s stock price due to market volatility; a decrease in demand for the Company’s products; reduced profitability; supply chain disruptions impeding the Company’s ability to ship and/or receive product; potential interruptions or limitations to manufacturing operations imposed by local, state or federal governments; shortages of key raw materials; workforce absenteeism and distraction; labor shortages; customer credit concerns; cyber security and data accessibility disruptions due to remote working arrangements; reduced sources of liquidity; increased borrowing costs; and potential asset impairment charges. Business disruptions and market volatility resulting from the COVID-19 pandemic could continue to have a material adverse impact on the Company’s results of operations, financial condition and cash flows.

Based on the Company’s current cash position, and expected future cash flows, the Company believes it will have sufficient cash to fund its operations beyond twelve months from the date of the issuance of the accompanying unaudited condensed financial statements.

*Definitive Transaction Agreement with TeraWulf, Inc.*

On June 25, 2021, the Company announced that its board of directors, along with the board of directors of TeraWulf Inc. (“TeraWulf”), unanimously approved a definitive agreement (as amended, the “Agreement”) under which the Company will combine with TeraWulf under a new holding company in a strategic business combination (the “Transaction”).

Upon consummation of the Transaction, each outstanding share of the Company’s common stock will receive \$5.00 in cash, one contingent value right (“CVR”), and one share of the combined company's common stock. Through the CVRs, which will not be publicly traded, the Company’s shareholders will be entitled to receive 95% of the net proceeds from any sale of the IKONICS legacy business completed during the 18 months following the closing of the business combination, and will expire at the end of such 18 month period with respect to any portion of the IKONICS legacy business which has not been sold. The shares of the combined company's common stock to be received by the Company’s shareholders will collectively represent approximately 2% of the combined company's pro forma common equity ownership.

Following consummation of the Transaction, the legacy business of IKONICS will be operated consistent with past practices but will be positioned for sale on terms that are acceptable to the board of directors of the combined company.

The Transaction is expected to close in the fourth quarter of 2021, subject to the receipt of regulatory approvals, the approval of IKONICS and TeraWulf shareholders, and other customary closing conditions.

The Agreement contains certain termination rights for both IKONICS and TeraWulf, including if the Transaction is not completed on or before December 31, 2021.

The Agreement provides that the Company will be obligated to pay TeraWulf a termination fee of \$1.2 million, and TeraWulf will be obligated to pay the Company a termination fee of \$10.0 million, if the Agreement is terminated under certain circumstances. The Agreement does not contain any post-Closing indemnification obligations with respect to the Parties.

The Company has incurred significant pre-tax expenses for professional fees and stock compensation expense in connection with the Transaction. In the third quarter of 2021 and during the first nine months of 2021, these expenses totaled approximately \$1.1 million and \$1.9 million, respectively. These expenses are primarily recorded in selling, general and administrative expenses in the condensed consolidated statement of operations.

*Legal Proceedings*

From time to time, the Company is involved in legal proceedings and regulatory proceedings arising from the Company’s operations. The Company establishes reserves for specific liabilities in connection with legal actions that are deemed to be probable and estimable. Except as set forth below, the Company is not currently a party to any proceeding, the adverse outcome of which would have a material adverse effect on its financial position or results of operations.

Six complaints have been filed by purported shareholders of IKONICS related to the mergers. On August 3, 2021, a complaint was filed in the United States District Court for the Southern District of New York, captioned Stein v. Ikonics Corporation, et al., No. 1:21-cv-06550. On August 11, 2021, a second complaint was filed in the United States District Court for the Eastern District of New York, captioned Bendimez v. Ikonics Corporation, et al., No. 1:21-cv-04514. On August 19, 2021, a third complaint was filed in the United States District Court for the Southern District of New York, captioned Whitfield v. Ikonics Corporation, et al., No. 1:21-cv-0710. On October 1, 2021, a fourth complaint was filed in the United States District Court for the Southern District of New York, captioned Jacobs v. Ikonics Corporation, et al., No. 1:21-cv-08148. On October 6, 2021, a fifth complaint was filed in the United States District Court for the Eastern District of Pennsylvania, captioned Ciccotelli v. Ikonics Corporation, et al., No. 2:21-cv-04391. On November 3, 2021, a sixth complaint was filed in the United States District Court for the Southern District of New York, captioned Noorman v. Ikonics Corporation, et al., No. 1:21-cv-09047. The Stein, Bendimez, Jacobs, Ciccotelli, and Noorman complaints name IKONICS and the members of its board of directors as defendants. The Whitfield complaint names as defendants IKONICS, its board of directors, and four other entities associated either with Telluride or TeraWulf and that are involved in the transactions discussed herein. Each of the six complaints alleges violations of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and certain SEC rules and regulations promulgated thereunder. Generally, the complaints allege, among other things, that disclosures made in the July 30, 2021 registration statement filed on Form S-4 with the SEC, or various amendments to that registration statement, misrepresented and/or omitted material information. The complaints seek, among other remedies, injunctive relief, including enjoining defendants from proceeding with or consummating the mergers, rescissory damages, and an award of costs and expenses, including attorneys’ and experts’ fees and expenses. IKONICS and the members of its board of directors have not yet answered or moved to dismiss any of the complaints, and believe they are without merit. However, there can be no assurance that IKONICS or its directors will prevail in any lawsuit. Additionally, similar lawsuits may be filed between the date of this filing and the date of the special meeting.

2. Inventories

The major components of inventories as of September 30, 2021 and December 31, 2020 were as follows:

	<u>Sep 30, 2021</u>	<u>Dec 31, 2020</u>
Raw materials	\$ 1,487,128	\$ 1,323,655
Work-in-progress	356,365	428,753
Finished goods	1,104,345	1,065,458
Reduction to LIFO cost	(1,298,321)	(1,172,891)
Total Inventories	<u>\$ 1,649,517</u>	<u>\$ 1,644,975</u>

3. Earnings Per Common Share (EPS)

Basic EPS is calculated using net loss divided by the weighted average of common shares outstanding. Diluted EPS is calculated similarly to Basic EPS except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the potential dilutive common shares, such as those shares subject to options, had been issued. The options and restricted stock units disclosed in Note 4 have been excluded from the computation because of their antidilutive effect.

Shares used in the calculation of diluted EPS are summarized below:

	<u>Three Months Ended</u>	
	<u>Sep 30, 2021</u>	<u>Sep 30, 2020</u>
Weighted average common shares outstanding	1,981,138	1,976,354
Dilutive effect of stock options and restricted stock units	—	—
Weighted average common and common equivalent shares outstanding	<u>1,981,138</u>	<u>1,976,354</u>

**IKONICS CORPORATION**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

(Unaudited)

	Nine Months Ended	
	Sep 30, 2021	Sep 30, 2020
Weighted average common shares outstanding	1,978,638	1,976,354
Dilutive effect of stock options and restricted stock units	—	—
Weighted average common and common equivalent shares outstanding	1,978,638	1,976,354

If the Company was in a net income position for the three and nine months ended September 30, 2021, 22,667 options with a weighted average exercise price of \$8.49 would have been included as part of the computation of common share equivalents as the options would have been dilutive.

If the Company was in a net income position for the three and nine months ended September 30, 2021, 86,810 restricted stock units would have been included as part of the computation of common share equivalents as the restricted stock units would have been dilutive.

If the Company was in a net income position for the three and nine months ended September 30, 2020, 17,500 options outstanding with a weighted average exercise price of \$6.97 would have remained excluded from the computation of common share equivalents as the options were anti-dilutive.

#### 4. Stock-Based Compensation

The Company maintains the 2019 Equity Incentive Plan (the "2019 Plan"). The 2019 Plan replaced the 1995 Incentive Stock Option Plan (the "1995 Plan") upon its ratification by shareholders in April 2019. The 1995 plan authorized the issuance of up to 442,750 shares of common stock through grants of restricted stock units and options. Of those shares, 1,000 were subject to outstanding options as of September 30, 2021. Awards granted under the 1995 Plan will remain in effect until they are exercised or expire according to their terms. At the time the 2019 Plan was approved, there were 102,157 shares reserved for future grants under the 1995 Plan which will no longer be available for future grants.

Under the terms of the 2019 Plan, the number of shares of common stock that may be the subject of awards and issued under the 2019 Plan was initially set at 102,157. Subsequent to the approval of the 2019 Plan, 12,750 outstanding options granted under the 1995 Plan were forfeited. Under the terms of the 2019 Plan, those forfeited options are added back to the 2019 Plan reserve pool. As of September 30, 2021, 90,850 restricted stock units (RSUs) and 23,250 options have been granted under the 2019 Plan, of which 1,000 stock options and 2,700 RSUs have been forfeited, bringing the number of shares of common stock available for future awards under the 2019 Plan to 4,257.

The Company charged compensation cost of approximately \$204,600 against the loss for the nine months ended September 30, 2021 and approximately \$10,100 for the nine months ended September 30, 2020. As of September 30, 2021, there was approximately \$597,000 of unrecognized compensation cost related to unvested share-based compensation awards. That cost is expected to be recognized over the next four years.

The Company receives a tax deduction for certain stock option exercises during the period in which the options are exercised, generally for the excess of the market price at the time the stock options are exercised over the exercise price of the options, which increases additional paid in capital and reduces income taxes payable.

Proceeds from the exercise of 3,833 stock options with an intrinsic value of approximately \$39,800 were approximately \$33,600 for the nine months ended September 30, 2021. No stock options were exercised during the nine months ended September 30, 2020.

There were 10,000 options granted during the nine months ended September 30, 2021 and 2020. The fair value of options granted during the nine months ended September 30, 2021 and 2020 were estimated using the Black Scholes option pricing model with the following assumptions:

	2021	2020
Dividend yield	—	—
Expected volatility	51.6%	40.3%
Expected life of option (years)	10	10
Risk-free interest rate	0.5%	1.4%
Fair value of each option on grant date	\$7.05	\$2.90

Stock option activity during the nine months ended September 30, 2021 was as follows:

	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding at January 1, 2021	17,500	\$ 6.97
Granted	10,000	11.50
Exercised	(3,833)	8.78
Expired and forfeited	(1,000)	10.75
Outstanding at September 30, 2021	<u>22,667</u>	<u>\$ 8.50</u>
Exercisable at September 30, 2021	<u>5,166</u>	<u>\$ 6.54</u>

The aggregate intrinsic value of all options outstanding and for those exercisable at September 30, 2021 was approximately \$152,800 and \$44,900, respectively.

There were 36,550 RSUs granted during the nine months ended September 30, 2021. The shares underlying the awards were assigned a weighted average value of \$11.01 per share, based on the closing price of the Company's common stock on the date of grants. The scheduled vesting period for these awards ranges from vesting at the time of the grant up to four years. No RSUs were granted during the nine months ended September 30, 2020.

RSU activity during the nine months ended September 30, 2021 is summarized as follows:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested shares at January 1, 2021	54,300	\$ 6.11
Granted	36,550	11.01
Vested	(1,340)	11.30
Forfeited or surrendered	(2,700)	6.69
Unvested shares at September 30, 2021	<u>86,810</u>	<u>\$ 8.07</u>

**IKONICS CORPORATION**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

(Unaudited)

5. Segment Information

The Company's reportable segments are strategic business units that offer different products and have varied customer bases. There are four reportable segments: Chromaline, IKONICS Imaging, Digital Texturing (DTX) and Advanced Material Solutions (AMS). Chromaline sells screen printing film, emulsions, and inkjet receptive film primarily to distributors and some end users. IKONICS Imaging sells photo resistant film, art supplies, glass, and related abrasive etching equipment to both end users and distributors. AMS provides sound deadening and weight reduction technology to the aerospace industry along with products and services for etched composites, ceramics, glass and silicon wafers. DTX includes products and customers related to patented and proprietary inkjet technology used for mold texturing and prototyping. The accounting policies applied to determine the segment information are the same as those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Management evaluates the performance of each segment based on the components of divisional income (loss). Assets and liabilities are not allocated to segments, except for trade receivables. Financial information with respect to the reportable segments follows:

**For the three months ended September 30, 2021:**

	IKONICS					Total
	Chromaline	IKONICS Imaging	DTX	AMS	Unalloc.	
Net sales	\$ 2,954,569	\$ 1,445,926	\$ 81,925	\$ 261,032	\$ —	\$ 4,743,452
Cost of goods sold	2,076,840	759,955	36,762	287,805	—	3,161,362
Gross profit (loss)	877,729	685,971	45,163	(26,773)	—	1,582,090
Selling general and administrative*	331,134	316,535	31,811	37,153	1,557,421	2,274,054
Research and development*	—	—	—	—	134,608	134,608
Income (loss) from operations	<u>\$ 546,595</u>	<u>\$ 369,436</u>	<u>\$ 13,352</u>	<u>\$ (63,926)</u>	<u>\$ (1,692,029)</u>	<u>\$ (826,572)</u>

**For the three months ended September 30, 2020:**

	IKONICS					Total
	Chromaline	IKONICS Imaging	DTX	AMS	Unalloc.	
Net sales	\$ 2,051,047	\$ 893,064	\$ 62,024	\$ 128,849	\$ —	\$ 3,134,984
Cost of goods sold	1,474,881	499,750	33,143	253,431	—	2,261,205
Gross profit (loss)	576,166	393,314	28,881	(124,582)	—	873,779
Selling general and administrative*	234,884	180,285	27,567	51,644	485,393	979,773
Research and development*	—	—	—	—	136,520	136,520
Income (loss) from operations	<u>\$ 341,282</u>	<u>\$ 213,029</u>	<u>\$ 1,314</u>	<u>\$ (176,226)</u>	<u>\$ (621,913)</u>	<u>\$ (242,514)</u>

**For the nine months ended September 30, 2021:**

	IKONICS					Total
	Chromaline	IKONICS Imaging	DTX	AMS	Unalloc.	
Net sales	\$ 7,306,983	\$ 3,797,382	\$ 243,680	\$ 720,163	\$ —	\$ 12,068,208
Cost of goods sold	5,217,363	1,953,681	113,814	775,624	—	8,060,482
Gross profit (loss)	2,089,620	1,843,701	129,866	(55,461)	—	4,007,726
Selling general and administrative*	879,064	792,290	93,851	154,643	3,482,299	5,402,147
Research and development*	—	—	—	—	398,425	398,425
Income (loss) from operations	<u>\$ 1,210,556</u>	<u>\$ 1,051,411</u>	<u>\$ 36,015</u>	<u>\$ (210,104)</u>	<u>\$ (3,880,724)</u>	<u>\$ (1,792,846)</u>

**For the nine months ended September 30, 2020:**

	IKONICS					Total
	Chromaline	IKONICS Imaging	DTX	AMS	Unalloc.	
Net sales	\$ 5,635,373	\$ 2,488,963	\$ 223,606	\$ 856,673	\$ —	\$ 9,204,615
Cost of goods sold	4,300,512	1,397,458	109,235	985,504	—	6,792,709
Gross profit (loss)	1,334,861	1,091,505	114,371	(128,831)	—	2,411,906
Selling general and administrative*	1,027,239	683,720	91,999	211,788	1,948,354	3,963,100
Research and development*	—	—	—	—	521,334	521,334
Income (loss) from operations	<u>\$ 307,622</u>	<u>\$ 407,785</u>	<u>\$ 22,372</u>	<u>\$ (340,619)</u>	<u>\$ (2,469,688)</u>	<u>\$ (2,072,528)</u>

\*The Company does not allocate all selling, general and administrative expenses or any research and development expenses to its operating segments for internal reporting.



**IKONICS CORPORATION**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
(Unaudited)

Trade receivables by segment as of September 30, 2021 and December 31, 2020 were as follows:

	<u>Sep 30, 2021</u>	<u>Dec 31, 2020</u>
Chromaline	\$ 1,266,482	\$ 1,676,592
IKONICS Imaging	482,691	396,116
DTX	19,908	35,983
AMS	155,643	57,676
Unallocated	(49,547)	(47,154)
Total	<u>\$ 1,875,177</u>	<u>\$ 2,119,213</u>

6. Income Taxes

The Company records its interim provision for income taxes by applying its estimated annual effective tax rate to the year-to-date pre-tax income and adjusting for discrete tax items recorded in the period. Deferred income taxes result from temporary differences between the reporting of amounts for financial statement purposes and income tax purposes. These differences relate primarily to different methods used for income tax reporting purposes, including for depreciation and amortization, warranty and vacation accruals, and deductions related to allowances for doubtful accounts receivable and inventory reserves. The provision for income taxes included current federal and state income tax expense, as well as deferred federal and state income tax expense.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended September 30, 2021. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

On the basis of this evaluation, as of September 30, 2021, a full valuation allowance has been recorded to reserve for deferred tax assets entirely, which are not expected to be realized. The valuation allowance will be reevaluated on a quarterly basis and may change if estimates of future taxable income during the carryforward period is increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth

The effective tax rate for the three months ended September 30, 2021 was an expense of 3.0%, compared to a benefit of 0.5% for the three months ended September 30, 2020. The Company recorded an income tax expense of \$26,000 and an expense of \$7,000 for the three months ended September 30, 2021 and 2020, respectively.

The effective tax rate for the nine months ended September 30, 2021 was an expense of 0.3%, compared to a benefit of 10.9% for the nine months ended September 30, 2020. The primary driver of the change in the Company's effective tax rate is attributable to additional benefit from a net operating loss carryback claim recorded in the prior year. The Company recorded an income tax expense of \$6,000 and a benefit of \$232,000 for the nine months ended September 30, 2021 and 2020, respectively.

**IKONICS CORPORATION**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

(Unaudited)

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority is more-likely -than-not to sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the condensed consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. As of September 30, 2021, the Company has no unrecognized tax benefits.

This Company is not currently under examination in any jurisdiction. In the event of any future tax assessments, the Company has elected to record the income taxes and any related interest and penalties as income tax expense on the statement of operations.

7. Long-Term Debt

**Duluth Economic Development Authority Loan**

On April 1, 2016, the Company entered into a financing agreement (the “Financing Agreement”) under which the Duluth Economic Development Authority (the “Issuer”) agreed to sell \$3,415,000 of its Tax Exempt Industrial Revenue Bonds, Series 2016 (IKONICS Project) (the “Bonds”) to Wells Fargo Bank, National Association (the “Bank”), and the Bank agreed to lend to the Company the proceeds received from the sale of the Bonds (the “Loan”). The closing of the sale of the Bonds occurred on April 29, 2016. The proceeds from the Loan were used to finance the construction of a 27,300-square foot building as well as related equipment for use in the Company’s manufacture of sound deadening technology used in the aerospace industry and products consisting of etched composites, ceramics, glass and silicon wafers, to be located in Duluth, Minnesota (the “Project”). The Loan required monthly payments of approximately \$18,000, including interest. The Loans interest rate was 2.60% per year, subject to change based upon changes to the maximum federal corporate tax rate. Including debt costs of approximately \$139,000, the Loan’s effective interest rate was 3.23%.

In January of 2021, the Company was informed that the bank will require the Company to repay the outstanding principal and any outstanding accrued and unpaid interest on April 1, 2021. On April 1, 2021, the Company repaid the entire loan including principal amount of \$2.7 million and interest of \$6,100 with existing cash on hand. When the loan was repaid, \$82,000 of unamortized deferred financing costs were written off and charged to interest expense.

**Line of Credit**

The Company also had a bank line of credit providing for borrowings of up to \$2,050,000 which was renewed on August 30, 2021 and expires on December 31, 2021 if not renewed and bears interest at 0.85 percentage points over the highest Prime rate. The Company did not utilize this line of credit or its previous line of credit during the first nine months of 2021 or 2020 and there were no borrowings outstanding as of September 30, 2021 or December 31, 2020. There are no financial covenants related to the line of credit, and the line of credit is collateralized by some of the Company's assets.

IKONICS CORPORATION

**Cautionary Note Regarding Forward-Looking Statements**

*The information presented below in Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements include but are not limited to statements relating to our future plans, objectives and results and the impact of the COVID-19 pandemic on our financial results and the effectiveness of the Company's responses to the pandemic. Such statements are subject to risks and uncertainties, including those discussed elsewhere in this report and under the heading "Risk Factors" in Part I, Item 1A of our [Annual Report on Form 10-K for the year ended December 31, 2020](#), as updated in our subsequent reports filed with the SEC, which could cause actual results to differ materially from those projected. Because actual results may differ, readers are cautioned not to place undue reliance on these forward-looking statements.*

*Factors that could cause actual results to differ from those expected include, but are not limited to, our pending strategic business combination with TeraWulf, Inc., including uncertainties as to timing of completion, the risk that the mergers may not be completed in a timely manner or at all and the risk that our shareholders cannot be certain of the value of the consideration they will receive.*

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following management's discussion and analysis focuses on those factors that had a material effect on the Company's financial results of operations during the third quarter of 2021 and first nine months of 2021 as well as the same periods of 2020. It should be read in connection with the Company's condensed unaudited financial statements and notes thereto included in this Form 10-Q.

**Impact of the COVID-19 Pandemic**

The Company is continuing to closely monitoring the coronavirus (COVID-19) pandemic and its impact on its business. The outbreak and continuing spread of COVID-19 resulted in a substantial curtailment of business activities worldwide and caused weakened economic conditions, both nationally and globally. As part of efforts to contain the spread of COVID-19, state, local and foreign governments imposed various restrictions on the conduct of business and travel. Government restrictions, such as stay-at-home orders and quarantines and company remote work policies led to a significant number of business closures and slowdowns. Even though many of the government restrictions have been lifted, these business closures and slowdowns adversely impacted and will likely continue to adversely impact the Company directly, as well as caused its customers and suppliers to slow or stop production, which significantly disrupted the Company's sales, production and supply chain. For example, as a result of the COVID-19 pandemic, the Company began to experience decreased demand for its products and services during the year ended 2020 and into 2021 along with disruptions to its supply chain. Even though demand for the Company's products and services has begun to return to pre-COVID-19 levels, the Company can not be assured that the increase in demand will continue or that it will be able to full fill this demand due to continued supply chain disruption which will likely have a material adverse impact on the Company's business, operating results and financial condition. The Company's facilities continue to operate and are doing so safely, having implemented social distancing and enhanced health and safety measures. The Company's leadership continues to address the situation and is adjusting as necessary. The Company also previously implemented necessary procedures to enable a significant portion of its employee base to work remotely. During the first nine months of 2021 most all of the Company's employees have returned to working at the Company's facilities. As the situation continues to evolve into a more prolonged pandemic, the Company expects the COVID-19 pandemic to have a significant adverse effect on economies and financial markets globally, potentially leading to a significant worldwide economic downturn, which could have a significant adverse effect on the Company's business, operating results and financial condition. To partially mitigate the negative impact of the COVID-19 pandemic, in 2020 the Company implemented cost reduction efforts including a reduction of its workforce, a decrease in the Company's contribution to its 401(k) retirement plan and the elimination of all non-essential expenditures. Refer to "Risk Factors" in our 2020 Annual Report on Form 10-K for more information on the potential effects of the ongoing COVID-19 pandemic on our future operating results.

**Critical Accounting Estimates**

The Company prepares its financial statements in conformity with accounting principles generally accepted in the United States of America. Therefore, the Company is required to make certain estimates, judgments and assumptions that the Company believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The accounting estimates, which the Company believes are the most critical to aid in fully understanding and evaluating its reported financial results, include the following:

*Trade Receivables.* The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by review of the current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same collection history that has occurred in the past especially given the unpredictability of any effects related to the COVID-19 pandemic. The general payment terms are net 30-45 days for domestic customers and net 30-90 days for foreign customers. A small percentage of the trade receivables balance is denominated in a foreign currency with no concentration in any given country. At the end of each reporting period, the Company analyzes the receivable balance for customers paying in a foreign currency. These balances are adjusted to each quarter or year-end spot rate in accordance with FASB ASC 830, *Foreign Currency Matters*. The Company also maintains a provision for any customer related returns based upon historical experience of actual returns and any specifically identified product issues, refunds or credits.

*Inventories.* Inventories are valued at the lower of cost or net realizable value using the last in, first out (LIFO) method. The Company monitors its inventory for obsolescence and records reductions from cost when required.



*Income Taxes.* Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets and liabilities are presented as long-term on a net basis. The Company follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

*Revenue recognition.* Revenue is measured based on consideration specified in the contract with a customer, adjusted for any applicable estimates of variable consideration and other factors affecting the transaction price, including noncash consideration, consideration paid or payable to customers and significant financing components. While most of the Company's revenue is contracted with customers through one-time purchase orders and short-term contracts, the Company does have long-term arrangements with certain customers. Revenue from all customers is recognized when a performance obligation is satisfied by transferring control of a distinct good or service to a customer.

Individually promised goods and services in a contract are considered a distinct performance obligation and accounted for separately if the customer can benefit from the individual good or service on its own or with other resources that are readily available to the customer and the good or service is separately identifiable from other promises in the arrangement. When an arrangement includes multiple performance obligations, the consideration is allocated between the performance obligations in proportion to their estimated standalone selling price. Costs related to products delivered are recognized in the period incurred, unless criteria for capitalization of costs are met. Costs of revenues consist primarily of direct labor, manufacturing overhead, materials and components. The Company does not incur significant upfront costs to obtain a contract. If costs to obtain a contract were to become material, the costs would be recorded as an asset and amortized to expense in a manner consistent with the related recognition of revenue.

The Company excludes governmental assessed and imposed taxes on revenue transactions that are invoiced to customers from revenue. The Company includes freight billed to customers in revenue. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of goods sold.

The timing of revenue recognition, billings and cash collections results in accounts receivable on the balance sheet.

*Performance obligations.* A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation in proportion to its standalone selling price and recognized as revenue when, or as, the performance obligation is satisfied. The Company's various performance obligations and the timing or method of revenue recognition are discussed below:

The Company sells its products to both distributors and end-users. Each unit of product delivered under a customer order represents a distinct and separate performance obligation as the customer can benefit from each unit on its own or with other resources that are readily available to the customer and each unit of product is separately identifiable from other products in the arrangement.

The transaction price for the Company's products is the invoiced amount. The Company does not have variable consideration in the form of refunds, credits, rebates, price concessions, pricing incentives or other items impacting transaction price. The purchase order pricing in arrangements with customers is deemed to approximate standalone selling price; therefore, the Company does not need to allocate proceeds on a relative standalone selling price allocation between performance obligations. The Company applies the practical expedient in FASB ASC 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less. There are no material obligations that extend beyond one year.

Revenue is recognized when transfer of control occurs as defined by the terms in the customer agreement. The Company immediately recognizes incidental items that are immaterial in the context of the contract. The Company has also applied the practical expedient in FASB ASC 606-10-32-18 regarding the adjustment of the promised amount of consideration for the effects of a significant financing component when the customer pays for that good or service within one year or less, as the Company does not have any significant financing components in its customer arrangements as payment is received at or shortly after the point of sale, generally thirty to ninety days.

The Company estimates returns based on an analysis of historical experience if the right to return products is granted to its customers. The Company does not record a return asset as non-conforming products are generally not returned. The Company's return policy does not vary by geography. The customer has no rotation or price protection rights. The Company is not under a warranty obligation except as described below.

*Sales commissions.* Sales commissions paid to sales representatives are eligible for capitalization as they are incremental costs that would not have been incurred without entering into a specific sales arrangement and are recoverable through the expected margin on the transaction. The Company has elected to apply the practical expedient provided by FASB ASC 340-40-25-4 and recognize the incremental costs of obtaining contracts as an expense when incurred, as the amortization period of the assets that would have otherwise been recognized is one year or less. The Company records these costs in selling, general, and administrative expense.

*Product warranty.* The Company offers warranties on various products and services. These warranties are assurance type warranties that are not sold on a standalone basis; therefore, they are not considered distinct performance obligations. The Company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time the revenue is recognized for the product sale.

*International revenue.* The Company markets its products to numerous countries in North America, Europe, Latin America, Asia and other parts of the world. Foreign sales were approximately 28% of total sales during the first nine months of 2021 and 30% during the first nine months of 2020.

## Results of Operations

### *Quarter Ended September 30, 2021 Compared to Quarter Ended September 30, 2020*

*Sales.* The Company's 2021 third quarter sales of \$4.7 million were \$1.6 million or 51.3%, higher than the 2020 third quarter sales of \$3.1 million. Chromaline's 2021 third quarter sales of \$3.0 million increased by 44.1% from third quarter 2020 sales of \$2.1 million while IKONICS Imaging sales increased from \$893,000 in the third quarter of 2020 to \$1.4 million in the third quarter of 2021, a 61.9% increase. DTX sales also increased by 32.1% in the third quarter of 2021 to \$82,000 compared to \$62,000 in the third quarter of 2020 while AMS sales grew from \$129,000 in the third quarter of 2020 to \$261,000 in the third quarter of 2021, a 102.6% increase. Chromaline, IKONICS Imaging, DTX, and AMS sales in third quarter of 2020 were negatively impacted by the slowdown in economic activity related to the COVID-19 pandemic. IKONICS Imaging sales in the third quarter of 2021 have also been favorably impacted by improved IKONART® sales.

*Gross Profit.* Gross profit was \$1.6 million or 33.4% of sales, in the third quarter of 2021 compared to \$874,000, or 27.9%, of sales for the same period in 2020. The Chromaline gross margin increased from 28.1% in the third quarter of 2020 to 29.7% in the third quarter of 2021 while the IKONICS Imaging gross margin increased from 44.0% in the third quarter of 2020 to 47.4% in the third quarter of 2021. The 2021 third quarter DTX gross margin was 55.1% compared to 46.6% for the the same period last year while the AMS gross margin improved from a negative 96.7% in the third quarter of 2020 to a negative 10.3% in the third quarter of 2021. All gross margins in 2020 were unfavorably impacted by lower sales volumes and lower production output caused by the COVID-19 pandemic.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$2.3 million or 47.9% of sales, in the third quarter of 2021 compared to \$980,000, or 31.3% of sales, for the same period in 2020. Selling, general and administrative expenses for the third quarter of 2021 increased primarily due to approximately \$1.1 million of professional service and stock compensation expenses related to the pending strategic business combination with TeraWulf, Inc.

*Research and Development Expenses.* Research and development expenses during the third quarter of 2021 were \$135,000, or 2.8% of sales, and were similar to third quarter 2020 research and development expense of \$137,000, or 4.4%, of sales.

*Interest Expense.* Interest expense for the third quarter of 2020 was \$25,000 and was nominal in the third quarter of 2021.

*Income Taxes.* For the three months ended September 30, 2021 the effective tax rate was an expense of 3.0%, compared to a benefit of 0.5% for the three months ended September 30, 2020. The Company recorded income tax expense \$26,000 and an expense of \$7,000 for the three months ended September 30, 2021 and 2020, respectively.

***Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020***

**Sales.** The Company's 2021 sales for the first nine months of \$12.1 million were \$2.9 million, or 31.1%, higher than the 2020 first nine months sales of \$9.2 million as 2020 sales were negatively impacted by the slowdown in economic activity related to the COVID-19 pandemic. Chromaline 2021 sales for the first nine months of \$7.3 million increased by 29.7% from 2020 first nine months sales of \$5.6 million while IKONICS Imaging first nine month sales of \$3.8 million in 2021 were \$1.3 million, or 52.6% higher than sales for the first nine months of 2020. IKONICS Imaging sales in 2021 also benefitted from improved IKONART® sales. AMS sales in the first nine months of 2021 were \$720,000 compared to \$857,000 for the same period in 2020, a 15.9% decrease. For AMS sales, both the negative effect of the COVID-19 pandemic in 2020 and the recovery in 2021 has been delayed compared to IKONICS other business segments. DTX sales for the first nine months of 2021 of \$244,000 increased by 9.0% over DTX sales for the first nine months of 2020.

**Gross Profit.** Gross profit was \$4.0 million, or 33.2% of sales, in the first nine months of 2021 compared to \$2.4 million, or 26.2% of sales, for the same period in 2020. The Chromaline gross margin increased from 23.7% in the first nine months of 2020 to 28.6% for the first nine months of 2021 while the IKONICS Imaging gross margin increased from 43.9% in the first nine months of 2020 to 48.6% in the first nine months of 2021. The 2021 DTX gross margin for the first nine months was 53.3% compared to 51.1% for the same period last year while the AMS gross margin improved from a negative 15.0% for the first nine months of 2020 to a negative 7.7% for the same period in 2021. All gross margins in 2020 were unfavorably impacted by lower sales volumes and lower production output caused by the COVID-19 pandemic.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$5.4 million, or 44.8% of sales, in the first nine months of 2021 compared to \$4.0 million, or 43.1% of sales, for the same period in 2020. Selling, general and administrative expenses for the first nine months of 2021 include approximately \$1.7 million of professional service and \$200,000 of stock compensation expense related to the pending strategic business combination with TeraWulf, Inc. Selling, general and administrative expenses for the first nine months of 2020 were affected by \$365,000 of one-time costs related to the Chief Executive Officer transition occurring in the first nine months of 2020. These costs include severance payments, a signing bonus, relocation expenses and executive search consulting expenses.

**Research and Development Expenses.** Research and development expenses during the first nine months of 2021 were \$398,000, or 3.3% of sales, versus \$521,000, or 5.7%, of sales for the same period in 2020. Research and development expenses in the first nine months of 2021 were favorably impacted by a reduction in staffing levels.

**Interest Expense.** Interest expense for the first nine months of 2021 and 2020 was \$102,000 and \$71,000, respectively. The interest expense increase for the first nine months of 2021 is due to the \$82,000 write off of debts acquisition costs when the loan was repaid.

**Income Taxes.** For the first nine months of 2021, the Company realized an income tax expense of \$6,000, or an effective tax rate of 0.3%, compared to a benefit of \$232,000, or an effective tax rate of 10.9% for the nine months ended September 30, 2020. The primary driver of the change in the Company's effective tax rate is attributable to additional benefit from a net operating loss carryback claim recorded in the prior year.

**Liquidity and Capital Resources**

Outside of the building expansion, for which \$3.4 million in financing was obtained during 2016 and the \$1.2 million Paycheck Protection loan the Company received and was forgiven in 2020, the Company has financed its operations principally with funds generated from operations. These funds have historically been sufficient to cover the Company's normal operating expenditures, annual capital requirements, and research and development expenditures.

Cash was \$1.5 million and \$3.7 million at September 30, 2021 and December 31, 2020, respectively. Operating activities provided \$565,000 in cash during the first nine months of 2021 compared to a use of cash of \$630,000 during the same period in 2020. Cash provided by or used in operating activities is primarily the result of net losses adjusted for non-cash depreciation, amortization, stock based compensation, and certain changes in working capital components discussed in the following paragraph.

During the first nine months of 2021, trade receivables decreased by \$244,000 due to improved collections. The Company believes that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections. Inventories remained relatively flat with an increase of \$5,000. Prepaid expenses and other assets increased by \$58,000 reflecting the prepayment of insurance premiums. Accrued expenses increased \$135,000 due to the timing of payroll. Accounts payable increased by \$1.2 million mainly due to professional service expenses related to the pending strategic business combination with TeraWulf, Inc. Income taxes receivable decreased by \$214,000 as the Company received payment during 2021 on a previously recorded income tax refund.

During the first nine months of 2020, trade receivables decreased by \$1.0 million. This decrease was due primarily to a slowdown in sales of products and services during the first nine months of 2020, as a result of the aforementioned COVID-19 pandemic. The Company believes that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections. Inventories decreased by \$25,000 due to lower raw material levels. Prepaid expenses and other assets decreased by \$746,000 reflecting a decrease in a receivable related to the reimbursement of 2019 medical insurance costs that the Company received from its stop-loss insurance carrier. Accrued expenses decreased \$526,000, reflecting a decrease in the accrual for health insurance costs. Accounts payable decreased by \$303,000 due to the Company's cost reduction efforts and a reduction in raw material purchases in anticipation of lower sales volumes. Income taxes receivable increased by \$240,000 as the Company recognized an income tax benefit attributable to a net operating loss carryback claim.

During the first nine months of 2021, cash used in investing activities was \$19,000. The Company's purchases of equipment of \$14,000 were mainly for improvements to production and process capabilities. The Company incurred \$10,000 in patent application costs that the Company records as an asset and amortizes upon successful completion of the application process. Additionally, the Company received \$5,000 in proceeds from the sale of a vehicle.

During the first nine months of 2020, cash provided by investing activities was \$2.1 million. Nine certificates of deposits totaling \$2.2 million matured during the first nine months of 2020. The Company's purchases of equipment of \$150,000 were mainly for improvements to production and process capabilities and to replace a vehicle. The Company received \$18,000 in proceeds from the sale of a vehicle. Also, during the first nine months of 2020, the Company incurred \$13,000 in patent application costs that the Company records as an asset and amortizes upon successful completion of the application process.



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During the first nine months of 2021, the Company received \$34,000 from the issuance of 3,833 shares of common stock from the exercise of stock options. There were no exercises of stock options during the first nine months of 2020.

On April 1, 2016, the Company entered into a financing agreement (the “Financing Agreement”) under which the Duluth Economic Development Authority (the “Issuer”) agreed to sell \$3,415,000 of its Tax Exempt Industrial Revenue Bonds, Series 2016 (IKONICS Project) (the “Bonds”) to Wells Fargo Bank, National Association (the “Bank”), and the Bank agreed to lend to the Company the proceeds received from the sale of the Bonds (the “Loan”). Related to the Company’s Loan, the Company made principal payments of \$108,000 during the first nine months of 2020.

The Company was subject to certain customary covenants set forth in the Loan, including a requirement that the Company maintain a debt service coverage ratio of not less than 1.25 to 1.00. As of December 31, 2020, the Company was in compliance with the debt service coverage ratio loan covenant. During the first nine months of 2021, the Company was notified by the bank that per the loan agreement the bank will recall the loan on April 1, 2021. On April 1, 2021, the Company repaid the entire loan including principal amount of \$2.7 million and interest of \$6,100 with existing cash on hand.

On April 18, 2020, the Company entered into a loan pursuant to the Paycheck Protection Program under the CARES Act, as administered by the U.S. Small Business Administration (the “SBA”). The loan, in the principal amount of \$1,214,500 (the “PPP Loan”), was disbursed by BMO Harris Bank National Association (“Lender”) on April 22, 2020, pursuant to a Paycheck Protection Program Promissory Note and Agreement (the “Note and Agreement”). The entire PPP Loan was forgiven by the SBA and the Lender prior to the end of 2020.

During the third quarter of 2021, the Company renewed a bank line of credit providing for borrowings of up to \$2,050,000 which expires December 31, 2021 if not renewed. The line of credit is collateralized by the Company’s assets and bears interest at 0.85 percentage points over the highest Prime. The Company did not utilize this line of credit or its previous line of credit during the first nine months of 2021 or 2020, and there were no borrowings outstanding as of September 30, 2021 or December 31, 2020. There are no financial covenants related to the line of credit, and the Company may secure a similar line of credit when the current line of credit expires.

The Company believes that current financial resources, its line of credit, and cash generated from operations, along with the Company’s capacity for additional debt and/or equity financing will be sufficient to fund current and anticipated business operations. However, the full extent of the effect of the COVID-19 pandemic on the Company’s customers, supply chain and business cannot be reasonably assessed at this time and the Company expects its full year 2021 results of operations to be adversely affected. The Company implemented a plan to mitigate the impact of COVID-19 which includes permanent reductions to the Company’s workforce, temporary reductions in board and officer compensation, temporary suspension of the Company’s contribution to its 401(k) retirement plan and the elimination of all non-essential expenditures. The impact of COVID-19 on the Company’s operating results will depend on future developments, which are highly uncertain and cannot be predicted, including governmental and business reactions to the pandemic.

### **Capital Expenditures**

Through the first nine months of 2021, the Company incurred \$14,000 of capital expenditures mainly for improvements to production and process capabilities.

The Company anticipates minimal capital expenditures for the remainder of 2021. Currently, the Company expects to fund its capital expenditures with existing cash and cash generated from operating activities.

## **International Activity**

The Company markets its products to numerous countries in North America, Europe, Latin America, Asia and other parts of the world. Foreign sales were approximately 28% of total sales during the first nine months of 2021 and 30% during the first nine months of 2020. The fluctuations of certain foreign currencies have not significantly impacted the Company's operations, as the Company's foreign sales are not concentrated in any one region of the world, although a strong U.S. dollar does make the Company's products less competitive internationally. The Company believes its vulnerability due to uncertainties in foreign currency fluctuations and general economic conditions in foreign countries is not significant.

The Company's foreign transactions are primarily negotiated, invoiced and paid in U.S. dollars, while a portion are transacted in Euros. The Company has not implemented an economic hedging strategy to reduce the risk of foreign currency translation or transaction exposures, as management does not believe this to be a significant risk based on the scope and geographic diversity of the Company's foreign operations. Furthermore, the impact of foreign exchange on the Company's balance sheet and operating results was not material in either 2021 or 2020.

## **Future Outlook**

See the discussion under the heading "Impact of the COVID-19 Pandemic" above for the Company's discussion of the COVID-19 pandemic.

IKONICS has spent an average of approximately 5% of annual sales in research and development and has made capital expenditures related to new products and programs. The Company plans to maintain its efforts in these areas to expedite internal product development as well as to form technological alliances with outside entities to commercialize new product opportunities.

The Company is also continuing to pursue DTX-related business initiatives. In addition to making efforts towards growing the inkjet technology business, the Company offers a range of products for creating texture surfaces and has introduced a fluid for use in prototyping. The Company has been awarded European, Japanese, and United States patents on its DTX technologies. The Company has also modified its DTX technology to facilitate entry into the market for prototyping.

The Company continues to make progress on its AMS business. The Company has three long-term sales agreements in place for its technology with major aerospace companies. However, based on customer communications, the Company anticipates reduced order volume for 2021 due to the COVID-19 pandemic.

Both the Chromaline and IKONICS Imaging units operate in mature markets. Although these business units require aggressive strategies to grow market share, both are developing new products and business relationships that the Company believes will contribute to growth. Early in 2019, the Company introduced its new IKONART® product to positive reviews and is generating sales. IKONART® provides a new way to make custom reusable stencils for the creative arts markets. In addition to its traditional emphasis on domestic markets, the Company will continue efforts to grow its business internationally by attempting to develop new markets and expanding market share where it has already established a presence. However, the strong U.S. dollar has made international growth challenging.

Other future activities undertaken to expand the Company's business may include strategic partnerships, acquisitions, building improvements, equipment additions, new product development and marketing opportunities.

In entering into the merger agreement relating to our pending strategic business combination with TeraWulf, Inc., we agreed to certain covenants that place restrictions on our operations until the consummation of the transaction. These operating covenants may restrict our ability to complete some of the aforementioned future activities until we are no longer subject to them.

## **Recent Accounting Pronouncements**

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments, which revises guidance for the accounting for credit losses on financial instruments within its scope, and in November 2018, issued ASU No. 2018-19 and in April 2019, issued ASU No. 2019-04 and in May 2019, issued ASU No. 2019-05, and in November 2019, issued ASU No. 2019-11, which amended the standard. The new standard introduces an approach, based on expected credit losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The new approach to estimating credit losses (referred to as the current expected credit losses model) applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures. This ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. Entities are required to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is still evaluating the impact of this ASU.

## **Off Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

## **ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

Not applicable

## **ITEM 4. Controls and Procedures**

As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company's disclosure control and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and

communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes to the Company's internal control over financial reporting that occurred during the first nine months of 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

**ITEM 1. Legal Proceedings**

From time to time, the Company is involved in legal proceedings and regulatory proceedings arising from the Company's operations. The Company establishes reserves for specific liabilities in connection with legal actions that are deemed to be probable and estimable. Except as set forth below, the Company is not currently a party to any proceeding, the adverse outcome of which would have a material adverse effect on its financial position or results of operations.

***Shareholder Litigation Relating to the Mergers***

Six complaints have been filed by purported shareholders of IKONICS related to the mergers. On August 3, 2021, a complaint was filed in the United States District Court for the Southern District of New York, captioned Stein v. Ikonics Corporation, et al., No. 1:21-cv-06550. On August 11, 2021, a second complaint was filed in the United States District Court for the Eastern District of New York, captioned Bendimez v. Ikonics Corporation, et al., No. 1:21-cv-04514. On August 19, 2021, a third complaint was filed in the United States District Court for the Southern District of New York, captioned Whitfield v. Ikonics Corporation, et al., No. 1:21-cv-0710. On October 1, 2021, a fourth complaint was filed in the United States District Court for the Southern District of New York, captioned Jacobs v. Ikonics Corporation, et al., No. 1:21-cv-08148. On October 6, 2021, a fifth complaint was filed in the United States District Court for the Eastern District of Pennsylvania, captioned Ciccotelli v. Ikonics Corporation, et al., No. 2:21-cv-04391. On November 3, 2021, a sixth complaint was filed in the United States District Court for the Southern District of New York, captioned Noorman v. Ikonics Corporation, et al., No. 1:21-cv-09047. The Stein, Bendimez, Jacobs, Ciccotelli, and Noorman complaints name IKONICS and the members of its board of directors as defendants. The Whitfield complaint names as defendants IKONICS, its board of directors, and four other entities associated either with Telluride or TeraWulf and that are involved in the transactions discussed herein. Each of the six complaints alleges violations of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and certain SEC rules and regulations promulgated thereunder. Generally, the complaints allege, among other things, that disclosures made in the July 30, 2021 registration statement filed on Form S-4 with the SEC, or various amendments to that registration statement, misrepresented and/or omitted material information. The complaints seek, among other remedies, injunctive relief, including enjoining defendants from proceeding with or consummating the mergers, rescissory damages, and an award of costs and expenses, including attorneys' and experts' fees and expenses. With the exception of the Whitfield case, IKONICS and the members of its board of directors have not been served with the complaints. One or more individual defendants have been served in the Whitfield case. IKONICS and the members of its board of directors have not yet answered or moved to dismiss any of the complaints, and believe they are without merit. However, there can be no assurance that IKONICS or its directors will prevail in any lawsuit. Additionally, similar lawsuits may be filed between the date of this filing and the date of the special meeting.

**ITEM 1A. Risk Factors**

You should carefully review and consider the information below, which is an update to and should be read in conjunction with the information regarding certain factors which could materially affect the Company's business, financial condition or future results set forth under the heading "Risk Factors" in the Company's [Annual Report on Form 10-K for the fiscal year ended December 31, 2020](#).

**Risks Relating to the Mergers**

The following factors relate to the Company's pending strategic business combination with Terawulf, Inc., including the related mergers contemplated under the Agreement and Plan of Merger dated June 25, 2021, as amended on August 5, 2021, that we entered into with Telluride Holdco, Inc., a Delaware corporation and direct wholly owned subsidiary of the Company ("HoldCo"), Telluride Merger Sub I, Inc., a Minnesota corporation and direct wholly owned subsidiary of HoldCo ("Merger Sub I"), Telluride Merger Sub II, Inc., a Delaware corporation and direct wholly owned subsidiary of HoldCo ("Merger Sub II"), and TeraWulf Inc., a Delaware corporation ("TeraWulf").

***The mergers are subject to a number of conditions, some of which are beyond our control.***

The merger agreement contains a number of closing conditions, including the following conditions that apply to the obligations of the Company, TeraWulf, HoldCo, Merger Sub I and Merger Sub II:

- The Company shall have obtained the approval of its shareholders to adopt the merger agreement;
- TeraWulf shall have obtained the approval of its shareholders to adopt the merger agreement;
- the SEC shall have declared the registration statement to be effective, and no stop order concerning the registration statement shall be in effect;
- the shares of Holdco common stock to be issued to shareholders of the Company and TeraWulf pursuant to merger agreement shall have been approved for listing on Nasdaq, subject only to official notice of issuance;

- any waiting period applicable to the completion of the mergers under the HSR Act shall have expired or shall have been earlier terminated;
- none of the parties to the merger agreement shall be subject to any decree, order or injunction of a U.S. court of competent jurisdiction that prohibits the consummation of the mergers; and
- EQ Shareowner Services, as Rights Agent, shall have duly executed and delivered the Contingent Value Rights Agreement.

In addition to the conditions described above, neither the Company nor TeraWulf is obligated to effect the mergers unless the following conditions, as applicable, are satisfied or waived by that party on or before the closing date:

- The representations and warranties of the other party shall be true and correct (subject to the materiality standards provided in the merger agreement) as of the closing date (except to the extent such representations and warranties expressly relate to an earlier date, in which case as of such earlier date), except where the failure of any such representations and warranties to be true and correct, individually or in the aggregate, has not had and is not reasonably likely to have a material adverse effect on the party making the representation or warranty (and the receipt by each party of an officer's certificate from the other party to such effect).
- The other parties shall have performed in all material respects their covenants and agreements under the merger agreement.
- No event, circumstance, development, change or effect shall have occurred since the date the merger agreement that, individually or in the aggregate, has had, or would reasonably be expected to have, a material adverse effect on the other party.
- There can be no assurance regarding when these conditions will be satisfied, if at all.

***The Company has incurred and will incur significant transaction costs in connection with the mergers.***

Except as otherwise provided in the merger agreement, whether or not the mergers are consummated, all expenses (including those payable to representatives of the parties) incurred by any party or on its behalf in connection with the merger agreement and the transactions contemplated by it ("*Expenses*") shall be paid by the party incurring those Expenses; provided, however, that at the closing before the effective time of the first merger, TeraWulf will reimburse the Company for all actual Expenses incurred by the Company in connection with the negotiation, approval and consummation of the transactions contemplated by the merger agreement, including the fees and disbursements of legal counsel, filing fees and mailing costs for the registration statement and proxy materials, up to a maximum of \$640,000.

***While the mergers are pending, the Company will be subject to business uncertainties and contractual restrictions that could adversely affect its businesses.***

Uncertainty about the effect of the mergers on employees, customers and suppliers may have an adverse effect on the Company and, consequently, on the combined company. These uncertainties may impair the Company's ability to attract, retain and motivate key personnel until the mergers are consummated and for a period of time thereafter, and could cause customers, suppliers and others who deal with the Company to seek to change existing business relationships with the Company. Employee retention may be particularly challenging during the pendency of the mergers because employees may experience uncertainty about their future roles with the combined company. If, despite the Company's retention efforts, key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company, the Company's business could be seriously harmed. In addition, the merger agreement restricts the Company, without TeraWulf's consent and subject to certain exceptions, from making certain acquisitions and taking other specified actions until the mergers occur or the merger agreement terminates. These restrictions may prevent the Company from pursuing otherwise attractive business opportunities and making other changes to its business that may arise prior to completion of the mergers or termination of the merger agreement.

***Failure to complete the mergers could negatively impact the stock price and the future business and financial results of the Company because of, among other things, the disruption that would occur as a result of uncertainties relating to a failure to complete the mergers.***

If the mergers are not completed for any reason, the Company could be subject to several risks, including the following:

- being required to pay TeraWulf a termination fee of \$1.2 million in certain circumstances, as set forth in the merger agreement;
- having had the focus of management of the Company directed toward the mergers post-merger planning instead of on the Company's core business and other opportunities that could have been beneficial to the Company; and
- incurring substantial transaction costs related to the mergers.

In addition, the Company would not realize any of the expected benefits of having completed the mergers.

If the mergers are not completed, the price of the Company common stock may decline to the extent that the current market price of that stock reflects a market assumption that the mergers will be completed and that the related benefits and synergies will be realized, or as a result of the market's perceptions that the mergers were not consummated due to an adverse change in the Company's business. In addition, the Company's business may be harmed, and the prices of its stock may decline as a result, to the extent that customers, suppliers and others believe that the Company cannot compete in the marketplace as effectively without the mergers or otherwise remain uncertain about the Company's future prospects in the absence of the mergers.

Similarly, current and prospective employees of the Company may experience uncertainty about their future roles with the combined company and choose to pursue other opportunities, which could adversely affect the Company, as applicable, if the mergers are not completed. The realization of any of these risks may materially adversely affect the business, financial results, financial condition and stock price of the Company.

***The merger agreement limits the Company's ability to pursue an alternative acquisition proposal and requires the Company to pay a termination fee of up to \$1.2 million if it does.***

The merger agreement prohibits the Company from soliciting, initiating or encouraging alternative merger or acquisition proposals with any third party, subject to certain exceptions. The merger agreement also provides for the payment by the Company of a termination fee of \$1.2 million if the merger agreement is terminated in certain circumstances in connection with a competing acquisition proposal or the withdrawal by the Company's board of directors of its recommendation that the shareholders of the Company vote for the adoption of the merger agreement, as the case may be.

These provisions limit the Company's ability to pursue offers from third parties that could result in greater value to the Company's shareholders. The obligation to make the termination fee payment also may discourage a third party from pursuing an alternative acquisition proposal.

***The outcomes of lawsuits filed by shareholders of the Company against the Company and its board of directors are uncertain and could result in significant costs, management distraction, and/or a delay of or injunction against the mergers.***

The outcome of the pending litigation based on claims arising from or relating to a proxy statement/prospectus that we have filed with the SEC in connection with the mergers, as well as any similar litigation that may be brought against the Company and its directors by purported shareholders of the Company, is uncertain and could result in significant costs to the Company, including costs associated with the indemnification of the Company's directors and officers. Other plaintiffs may also file lawsuits against the Company and/or its directors and officers in connection with the mergers. The defense or settlement of any lawsuits or claims relating to the mergers may have an adverse effect on the business, financial condition and results of operations of the Company.

If the actions that may be brought, remain unresolved, they could prevent or delay the completion of the mergers. One of the conditions to the consummation of the mergers is that the parties to the merger agreement are not subject to any decree, order or injunction of a U.S. court of competent jurisdiction that prohibits the consummation of the mergers. Consequently, if a settlement or other resolution is not reached in any lawsuit that is filed or any regulatory proceeding and a claimant secures injunctive or other relief or a regulatory authority issues an order or other directive prohibiting the consummation of the transactions contemplated by the merger agreement (including the mergers), then such injunctive or other relief may prevent the mergers from becoming effective in a timely manner or at all.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable

**ITEM 3. Defaults upon Senior Securities**

Not applicable

**ITEM 4. Mine Safety Disclosures**

Not applicable

**ITEM 5. Other Information**

None

**ITEM 6. Exhibits**

The following exhibits are filed as part of this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021:

<b>Exhibit</b>	<b>Description</b>
2.1	<a href="#">Agreement and Plan of Merger, dated June 24, 2021, by and among IKONICS Corporation, Telluride Holdco, Inc., Telluride Merger Sub I, Inc., Telluride Merger Sub II, Inc., and TeraWulf Inc. (Incorporated by reference to the Company's Current Report on Form 8-K filed on June 25, 2021).</a>
2.2	<a href="#">Amendment to Agreement and Plan of Merger, dated August 5, 2021, by and among TeraWulf Inc., IKONICS Corporation, Telluride Holdco, Inc., Telluride Merger Sub I, Inc. and Telluride Merger Sub II, Inc. (Incorporated by reference to the Company's Current Report on Form 8-K filed on August 11, 2021).</a>
2.3	<a href="#">Amendment No.2 to Agreement and Plan of Merger, dated September 17, 2021, by and among TeraWulf Inc., IKONICS Corporation, Telluride Holdco, Inc., Telluride Merger Sub I, Inc. and Telluride Merger Sub II, Inc. (incorporated by reference to Appendix A to the proxy statement/prospectus that forms a part of the Registration Statement on Form S-4)</a>
3.1	<a href="#">Restated Articles of Incorporation, as amended (Incorporated by reference to the Company's Current Report on Form 8-K filed on December 16, 2002).</a>
3.2	<a href="#">Amended and Restated Bylaws of IKONICS Corporation (Incorporated by reference to the Company's Current Report on Form 8-K filed on June 25, 2021).</a>
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certifications of CEO</a>
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certifications of CFO</a>
32	<a href="#">Section 1350 Certifications</a>
101	Financial statements from the Quarterly Report on Form 10-Q of IKONICS Corporation for the period ended September 30, 2021 filed with the SEC on November 15, 2021 formatted in Inline Extensible Business Reporting Language (iXBRL); (i) Condensed Balance Sheets as of September 30, 2021 (unaudited) and December 31, 2020, (ii) Condensed Statements of Operations for the Three and Nine Months Ended September 30, 2021 and 2020 (unaudited), (iii) Statements of Stockholders' Equity for the Three and Nine Months Ended September 30, 2021 and 2020 (unaudited), (iv) Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2021 and 2020 (unaudited), and (v) Notes to Condensed Financial Statements (unaudited)
104	Cover Page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101)

IKONICS CORPORATION

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IKONICS CORPORATION

Date: November 15, 2021

By: /s/ Jon Gerlach  
Jon Gerlach,  
Chief Financial Officer, and  
Vice President of Finance

## RULE 13a-14(a)/15d-14(a) CERTIFICATIONS OF CEO

I, Glenn Sandgren, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IKONICS Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2021

/s/ Glenn Sandgren

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Glenn Sandgren  
Chief Executive Officer

## RULE 13a-14(a)/15d-14(a)/CERTIFICATIONS OF CFO

I, Jon Gerlach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IKONICS Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2021

/s/ Jon Gerlach

Jon Gerlach

Chief Financial Officer and Vice President of Finance

SECTION 1350 CERTIFICATIONS

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of IKONICS Corporation.

Date: November 15, 2021

/s/ Glenn Sandgren  
\_\_\_\_\_  
Glenn Sandgren  
Chief Executive Officer

Date: November 15, 2021

/s/ Jon Gerlach  
\_\_\_\_\_  
Jon Gerlach  
Chief Financial Officer and Vice President of Finance