SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Fiscal Year Ended December 31, 2005

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)

<TABLE>

<S>	<C>
Minnesota	41-0730027
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

</TABLE>

<TABLE>

<S>	<C>
4832 Grand Avenue Duluth, Minnesota	55807
(Address of principal executive offices)	(Zip code)

</TABLE>

Registrant's telephone number, including area code: (218) 628-2217

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act: Common Stock, par value $.10 per share

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

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

The issuer's revenues for its most recent fiscal year were: $13,971,217

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 28, 2006 was $14,749,407, based on the closing price for the issuer's Common Stock on such date as reported on the Nasdaq SmallCap Market. For purposes of determining this number, all officers and directors of the issuer are considered to be affiliates of the issuer, as well as individual stockholders holding more than 10% of the issuer's outstanding Common Stock. This number is provided only for the purpose of this report on Form 10-KSB and does not represent an admission by either the issuer or any such person as to the status of such person.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: Common Stock, $.10 par value - 1,970,792 issued and outstanding as of February 28, 2006.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

This Annual Report on Form 10-KSB contains forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, relating to future events or the future financial performance of the Company. Forward-looking statements are only predictions or statements of intention subject to risks and uncertainties and actual events or results could differ materially from those projected. Factors that could cause actual results to differ include the risks, uncertainties and other matters set forth below under the caption "Factors that May Affect Future Results" and the matters set forth under the captions "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as those discussed elsewhere in this Annual Report on Form 10-KSB.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement for its 2005 Annual Meeting of Shareholders are incorporated by reference in Part III.

PART I

ITEM 1. BUSINESS

GENERAL

IKONICS Corporation ("IKONICS" or the "Company") was incorporated in Minnesota as Chroma-Glo, Inc. in 1952 and changed its name to The Chromaline Corporation in 1982. In December 2002, the Company changed its name to IKONICS Corporation. The Company develops, manufactures and sells light-sensitive liquid coatings ("emulsions") and films, and distributes ink jet receptive films for commercial and industrial applications in the United States and abroad. The Company also markets ancillary chemicals, equipment and other consumables to provide a full line of products and services to its customers. The Company's products serve the screen printing and abrasive etching markets. The screen printing products represent the Company's largest product line. These products are used by screen printers to create stencil images. These images produce basic designs for fabric decoration and product identification, as well as complex designs for compact discs and electronic circuits. The abrasive etching products are used by consumers to create architectural glass, art pieces and awards, and in various industrial applications. The Company also sells a line of ink jet receptive films used for the creation of photopositives and photonegatives. In 2004, the Company launched two new product lines. The first, called IKONSign Etch, markets a complete system that allows customers the ability to easily produce a broad array of high quality sign products at a low cost. In 2005, the Company continued to develop new products and distribution channels for IKONSign Etch. The second launch in 2004, called IKONImage planned to use the Company's technology and low cost etching services to bring unique products to market and to provide low cost etching services for the Company's customers. During 2005, the market for this service did not develop as expected and the Company determined that IKONImage was no longer a viable business model. Thus, IKONImage was terminated. During 2006, the Company launched a new division called IKONICS Industrial. IKONICS Industrial offers imaging technology to industrial markets.

PRODUCTS

IKONICS' core technology is the use of photochemicals to create and transfer images. This technology is similar to photographic film technology except that the Company uses organic polymers or natural protein rather than silver to make the product photo-reactive ("light sensitive"). The products IKONICS targets at the screen printing industry are light-sensitive films and light-sensitive emulsions used by customers to create an image on a printing screen; the equivalent of a printing plate in other types of printing processes. In the abrasive etching market,

the Company's products are also films and emulsions. These products are used to create a stencil by decorators of glass and other hard surfaces, including crystal, marble, metals, wood, stone and plastics. The stencil is applied directly to the article to be decorated by the sand blasting process through a self-adhesive feature or with a separate adhesive. The open areas of the stencil permit the sand blast grit to erode the surface while the closed areas of the stencil repel the sand blast grit, protecting areas of the surface being decorated.

All of IKONICS' light sensitive products are sensitive to ultraviolet radiation. The Company uses different chemicals to create sensitivity to light, including a molecule which it developed internally and patented.

DISTRIBUTION

The Company currently has approximately 180 domestic and international distributors. The Company also sells its products through direct sales to certain end users who do not require the services of a distributor. In addition, IKONICS markets and sells its products through magazine advertising, trade shows and the internet.

IKONICS has a diverse customer base both domestically and abroad and does not depend on one or a few customers for a material portion of its revenues. In 2005, no one customer accounted for more than 10% of revenues.

QUALITY CONTROL IN MANUFACTURING

In March 1994, IKONICS became the first firm in northern Minnesota to receive ISO 9001 certification. ISO 9000 is a series of worldwide standards issued by the International Organization for Standardization that provide a framework for quality assurance. ISO 9001 is the most comprehensive standard of the ISO 9000 series. The Company was recertified in 1997, 2000 and 2003. IKONICS' quality function goal is to train all employees properly in both their work and in the importance of their work. Internal records of quality, including related graphs and tables, are reviewed regularly and discussions are held among management and employees regarding how improvements might be realized. The Company has rigorous materials selection procedures and also uses environmental testing and screen print equipment tailored to fit customers' needs.

RESEARCH AND DEVELOPMENT/INTELLECTUAL PROPERTY

IKONICS spent 4.6% of sales ($642,000) on research and development in 2005 and 4.2% ($575,000) in 2004. In its research program, IKONICS has developed unique light-sensitive molecules which have received two U.S. patents. These patents expire in 2011 and 2014, respectively. In addition, the Company holds a number of other patents related to its photopolymer chemistry that expire between 2006 and 2020. The Company also has nine United States patent applications pending. There can be no assurance that any patent granted to the Company will provide adequate protection to the Company's intellectual property. Within IKONICS, steps are taken to protect the Company's trade secrets, including physical security, confidentiality and non-competition agreements with employees and confidentiality agreements with vendors. In its product development program, IKONICS is fully equipped to simulate customer uses of its products. The Company's facilities include a walk-in environmental chamber which simulates customer uses and storage conditions of IKONICS products for different climatic zones.

In addition to its patents, the Company has various trademarks including the "IKONICS," "Chromaline," "PhotoBrasive," "Accuart," and "Nichols" trademarks.

RAW MATERIALS

The primary raw materials used by IKONICS in its production are photopolymers, polyester films, polyvinylacetates, polyvinylalcohols and water. The purchasing staff at the Company's headquarters leads in the identification of both domestic and foreign sources for raw materials and negotiates price and terms for all domestic and foreign markets. IKONICS' involvement in foreign markets has given it the opportunity to become a global buyer of raw materials at lower overall cost. The Company has a number of suppliers for its operations. Some suppliers provide a significant amount of key raw materials to the Company, but the Company believes alternative sources are available for most materials. For those raw materials where an alternative source is not readily available, the Company is developing contingency raw material replacement plans. To date, there have been no significant shortages of raw materials. The Company believes it has good supplier relations.

COMPETITION

The Company competes in its markets based on product development capability, quality, reliability, availability, technical support and price. Though the screen printing market is much larger than the decorative sandblasting market, IKONICS commands significantly more market share in the latter. The Company is actively pursuing other markets where its image-transfer technology may offer significant value. IKONICS has two primary competitors in its screen printing film business, both of which are foreign-owned entities. They are larger than IKONICS and possess greater resources than the Company in many areas. The Company has numerous competitors in the market for screen print emulsions many of whom are larger than IKONICS and possess greater resources. The market for the Company's abrasive etching products has one significant competitor. IKONICS considers itself to be the leader in this market.

GOVERNMENT REGULATION

The Company is subject to a variety of federal, state and local industrial laws and regulations, including those relating to the discharge of material into the environment and protection of the environment. The governmental authorities primarily responsible for regulating the Company's environmental compliance are the Environmental Protection Agency, the Minnesota Pollution Control Agency and the Western Lake Superior Sanitary District. Failure to comply with the laws promulgated by these authorities may result in monetary sanctions, liability for environmental clean-up and other equitable remedies. To maintain compliance, the Company may make occasional changes in its waste generation and disposal procedures.

These laws and regulations have not had a material effect upon the capital expenditures or competitive position of the Company. The Company believes that it complies in all material respects with the various federal, state and local regulations that apply to its current operations. Failure to comply with these regulations could have a negative impact on the Company's operations and capital expenditures and such negative impact could be significant.

EMPLOYEES

As of February 28, 2006, the Company had approximately 68 full-time employees, 64 of whom are located at the Company's headquarters in Duluth, Minnesota and four of whom are outside technical sales representatives in various locations around the United States. None of the Company's employees are subject to a collective bargaining agreement and the Company believes that its employee relations are good.

ITEM 2. PROPERTY

The Company primarily conducts its operations in Duluth, Minnesota. The administrative, sales, research and development, quality and manufacturing activities are housed in a 60,000 square-foot, four-story building, including a basement level. The building is approximately seventy years old and has been maintained in good condition. Shipping and distribution for the Company operates from a 5,625 square-foot warehouse adjacent to the existing plant building that was constructed in 1997. These facilities are owned by the Company with no existing liens or leases. The Company also leases warehouse space at two locations in Superior, Wisconsin.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders by the registrant during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock is traded on the Nasdaq SmallCap Market under the symbol IKNX. The following table sets forth, for the fiscal quarters indicated, the high and low bid prices for the Company's Common Stock as reported on the Nasdaq Small Cap Market for the periods indicated. The quotations reflect inter-dealer prices without retail mark-up, mark-down or commission, and may not represent actual transactions.

<TABLE>
<CAPTION>

<S>	HIGH <C>	LOW <C>
FISCAL YEAR ENDED DECEMBER 31, 2005:		
First Quarter........................	$7.35	$5.51
Second Quarter.......................	7.00	4.20
Third Quarter........................	6.99	4.95
Fourth Quarter.......................	8.99	5.78
FISCAL YEAR ENDED DECEMBER 31, 2004:		
First Quarter........................	$8.30	$4.20
Second Quarter.......................	7.67	4.48
Third Quarter........................	7.00	5.06
Fourth Quarter.......................	8.00	5.61

</TABLE>

As of February 28, 2006, the Company had approximately 729 shareholders. The Company has never declared or paid any dividends on its Common Stock.

The Company did not purchase shares of its equity securities during the fourth quarter of 2005. A total of 50,007 shares of Common Stock may yet be purchased under the repurchase program approved by the Company's Board of Directors in February 2005.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

OF OPERATIONS

The following management discussion and analysis focuses on those factors that had a material effect on the Company's financial results of operations and financial condition during 2005 and 2004 and should be read in connection with the Company's audited financial statements and notes thereto for the years ended December 31, 2005 and 2004.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Certain statements made in this Annual Report on Form 10-KSB, including those summarized below, are forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, and actual results may differ. Factors that could cause actual results to differ include those identified below.

- The Company's belief that international sales will rebound in 2006--This belief may be impacted by economic, political and social conditions in current and anticipated foreign markets, regulatory conditions in such markets, unanticipated changes in expenses, changes in purchase or sales terms, changes in the selling environment in foreign markets, changes in competitive conditions or other barriers to entry or expansion.

- The Company's belief that costs related to Section 404 of the Sarbanes-Oxley Act of 2002 should be lower in 2006--This belief may be impacted by changes in law or regulation affecting the timing of the Company's required compliance with Section 404 or unanticipated barriers to such compliance resulting from the Company's internal controls or third party influences.

- The Company's belief that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections--This belief may be impacted by domestic economic conditions, by economic, political, regulatory or social conditions in foreign markets, or by the failure of the Company to properly implement or maintain internal controls.

- The belief that the Company's current financial resources, cash generated from operations and the Company's capacity for debt and/or equity financing will be sufficient to fund current and anticipated business operations and capital expenditures. The belief that the Company's low debt levels and available line of credit make it unlikely that a decrease in product demand would impair the Company's ability to fund operations--Changes in anticipated operating results, credit availability, equity market conditions or the Company's debt levels may further enhance or inhibit the Company's ability to maintain or raise appropriate levels of cash.

- The Company's expectation that capital expenditures will be funded with cash generated from operating activities--This expectation may be affected by changes in the Company's anticipated capital expenditure requirements resulting from unforeseen required maintenance or repairs. The funding of planned or unforeseen expenditures may also be affected by changes in anticipated operating results resulting from decreased sales or increased operating expenses.

- The Company's belief that its vulnerability to foreign currency fluctuations and general economic conditions in foreign countries is not significant--This belief may be impacted by economic, political and social conditions in foreign markets, changes in regulatory and competitive conditions, a change in the amount or geographic focus of the Company's international sales, or changes in purchase or sales terms.

- The Company's plans to continue to invest in research and development efforts, expedite internal product development and invest in technological alliances, as well as the expected focus and results of such investments--These plans and expectations may be impacted by general market conditions, unanticipated changes in expenses or sales, delays in the development of new products, technological advances, the ability to find suitable and willing technology partners or other changes in competitive or market conditions.

- The Company's efforts to grow its international business--These efforts may be impacted by economic, political and social conditions in current and anticipated foreign markets, regulatory conditions in such markets, unanticipated changes in expenses or sales, changes in competitive conditions or other barriers to entry or expansion.

- The Company's belief as to future activities that may be undertaken to expand the Company's business--Actual activities undertaken may be impacted by general market conditions, competitive conditions in the Company's industry, unanticipated changes in the Company's financial position or the inability to identify attractive acquisition targets or other business opportunities.

CRITICAL ACCOUNTING POLICIES

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 policies which IKONICS believes are the most critical to aid in fully understanding and evaluating its reported financial results include the following:

Accounts Receivable. 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. The general payment terms are net 30-45 days for domestic customers and net 60-90 days for foreign customers.

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

Deferred Tax Assets. At December 31, 2005, the Company had approximately $160,000 of net deferred tax assets. The deferred tax assets result primarily due to timing differences in accrued expenses, inventory reserves, intangible assets and property and equipment. The Company has recorded a $27,000 valuation allowance to reserve for items that more likely than not will not be realized. The Company has determined that it is more likely than not that the remaining deferred tax assets will be realized and that an additional valuation allowance for such assets is not currently required.

Revenue Recognition. The Company recognizes revenue on products when title passes which is usually upon shipment. Freight billed to customers is included in sales. Shipping costs are included in cost of goods sold.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

Sales. The Company's net sales increased 2.1% to $14.0 million in 2005, compared to net sales of $13.7 million in 2004. Growth in 2005 was due to increased domestic market penetration for certain film products. This domestic growth was partially offset by lower international sales. International sales were down by 4.1% as foreign competition in relation to pricing and products has intensified in key markets in both Asia and Europe. The Company looks for international sales to rebound in 2006 as new products are introduced and new markets are developed.

Cost of Goods Sold. Cost of goods sold was $7.7 million, or 55.5% of sales, in 2005 and $7.6 million, or 55.2% of sales, in 2004. The increase in cost of goods sold reflects both raw material price increases as a large portion of IKONICS' raw materials are petroleum based products and increased transportation costs. The Company anticipates that raw material pricing will be more stable in 2006.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased to $4.4 million, or 31.3% of sales, in 2005 from $4.5 million, or 33.1% of sales, in 2004. The decrease was related to $125,000 of lower trade show expenses in 2005 due to efforts to streamline the Company's trade show presence, $30,000 less in deprecation expense and a $20,000 reduction in legal expenses. The Company also realized $40,000 in savings from reduced marketing activities in Southeast Asia. These savings were partially offset by $50,000 in additional costs for professional services as a result of efforts required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. Costs related to Section 404 of the Sarbanes-Oxley act of 2002 should be lower in 2006. The Company also incurred an additional $60,000 of marketing and advertising expenses related to IKONSign Etch and IKONImage.

Research and Development Expenses. Research and development expenses were $642,000, or 4.6% of sales, in 2005 compared to $575,000, or 4.2% of sales, in 2004. The increase is due to additional research and development staff and higher trial production and legal expenses.

Interest Income. Interest income increased to $58,000 in 2005, compared to $14,000 for 2004. The increase was primarily due to increased interest rates and a larger investment balance.

Income Taxes. Income taxes were $348,000, or an effective rate of 27.7%, during 2005 compared to $273,000, or an effective rate of 26.5% in 2004. The higher effective tax rate during 2005 relates to a lower level of tax benefits during that period from the extraterritorial income exclusion on foreign sales as it began to phase out in 2005 and lower foreign sales compared to 2004. The increase was partially offset by federal tax credits for research and development.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations principally with funds generated from operations. These funds have been sufficient to cover the Company's normal operating expenditures, annual capital requirements, and research and development expenditures.

Cash and cash equivalents were $3,412,000 and $2,737,000 at December 31, 2005 and December 31, 2004, respectively. The Company generated $980,000 in cash from operating activities during 2005 compared to $1,262,000 of cash generated from operating activities during 2004. Cash provided by operating activities is primarily the result of net income adjusted for non-cash depreciation, amortization, provision for doubtful accounts, and certain changes in working capital components discussed in the following paragraph.

During 2005, trade receivables increased by $60,000. The increase in receivables reflects higher sales and a reduced allowance for doubtful accounts partially offset by 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. Inventory levels increased by $163,000, reflecting higher raw material levels primarily due to increased raw materials for the Company's Accuart and Accublack product lines to support sales growth. Accounts payable decreased by $98,000, reflecting the timing of payments to suppliers. Income taxes payable increased by $27,000 as a result of the timing of estimated 2005 tax payments compared to the calculated 2005 tax liability. Accrued expenses decreased by $12,000 due to a reduction in an estimated sales tax liability, partially offset by an increase in accrued compensation due to the timing of compensation payments.

The Company used $423,000 and $255,000 in cash for investing activities during 2005 and 2004, respectively. During 2005, the Company invested $253,000 in Imaging Technology International ("iTi") to acquire 36,496 shares and warrants to purchase an additional 33,333 shares of iTi. At the time of the acquisition, the 36,496 shares represented 3.6% of the total outstanding common shares of iTi. iTi is a leader in the development of industrial production systems based on ink jet technology and the Company believes iTi's expertise fits strategically with the Company's expertise in developing substrates for a wide variety of industrial printing processes. The Company made $211,000 of property and equipment purchases during 2005. The purchases were comprised of plant and research equipment to improve efficiency and safety, reduce operating costs and update facilities, and two automobiles. The Company also incurred $12,000 in patent application costs that it recorded as an asset and amortizes upon successful completion of the application process. The Company received $43,000 during 2005 from the sale of marketable securities and $11,000 from the sale of automobiles.

During 2004, the Company spent $270,000 on plant equipment upgrades to improve efficiency and safety, reduce operating costs and update facilities and on purchases of vehicles. Also during 2004, the Company exercised warrants for the purchase of 244,585 shares of Apprise Technologies for an aggregate exercise price of $85,000. The Company also incurred $9,000 in patent application costs and realized $108,000 from the sale of marketable securities.

The Company realized $117,000 in cash from financing activities during 2005 compared to $223,000 received in 2004. During 2005, the Company received $233,000 for the issuance of 57,491 shares of common stock issued upon the exercise of stock options compared to $223,000 received during 2004 for 58,355 shares of common stock issued upon the exercise of stock options. The Company repurchased 25,499 shares of its common stock at a cost of $116,000 during 2005.

A bank line of credit provides for borrowings of up to $1,250,000. Borrowings under this line of credit are collateralized by accounts receivable and inventory and bear interest at 2.00 percentage points over the 30-day LIBOR rate. The Company did not utilize this line of credit during the year and there were no borrowings outstanding as of December 31, 2005. The line of credit was also not utilized during 2004 and there were no borrowings outstanding under this line as of December 31, 2004.

The Company believes that current financial resources, its line of credit, cash generated from operations and the Company's capacity for debt and/or equity financing will be sufficient to fund current and anticipated business operations. The Company also believes that its low debt levels and available line of credit make it unlikely that a decrease in demand for the Company's products would impair the Company's ability to fund operations.

CAPITAL EXPENDITURES

The Company spent $211,000 on capital expenditures during 2005. This spending included plant and research equipment upgrades to improve efficiency and safety, reduce operating costs, update facilities and vehicles.

Plans for capital expenditures include ongoing manufacturing equipment upgrades, development equipment to modernize the capabilities and processes of IKONICS' laboratory, and research and development to improve measurement and quality control processes. These commitments are expected to be funded with cash generated from operating activities.

INTERNATIONAL ACTIVITY

The Company markets its products to numerous countries in all regions of the world including North America, Europe, Latin America, and Asia. Foreign sales were approximately 29.4% of total sales during 2005 and 31.4% of total sales in 2004. Foreign sales in 2005 reflect increased competition in relation to pricing and products in both Asia and Europe. Fluctuations in certain foreign currencies have not significantly impacted the Company's operations because the Company's foreign sales are not concentrated in any one region of the world. The Company believes its vulnerability to uncertainties due to 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 is transacted in Euros. IKONICS has not implemented a hedging strategy to reduce the risk of foreign currency translation exposures, which management does not believe to be significant based on the scope and geographic diversity of the Company's foreign operations as of December 31, 2005.

FUTURE OUTLOOK

IKONICS has invested on average over 4% of its sales dollars for the past few years in research and development. The Company plans to maintain its efforts in this area and expedite internal product development, as well as form technological alliances with outside experts to ensure commercialization of new product opportunities.

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.

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

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment" ("SFAS 123R"). SFAS 123R replaces FASB Statement No. 123 "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25 "Accounting for Stock Issued to Employees." The statement establishes standards for accounting for share-based payment transactions. Share-based payment transactions are those in which an entity exchanges its equity instruments for goods or services, or in which an entity incurs liabilities in exchange for goods or services, that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date (with limited exceptions). That cost will be recognized in the entity's financial statements over the period during which the employee is required to provide services in exchange for the award. The statement will be effective for the Company's first quarter of 2006. The Company intends to apply the

modified prospective method and estimates the effect of adopting this statement will be to reduce basic and diluted earnings per share amounts by approximately $0.01 for fiscal year 2006. The Company also expects to continue using the Black-Scholes pricing model as allowed under SFAS 123R.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs" ("SFAS 151"). The provisions of SFAS 151 become effective for the Company for the first quarter of 2006. SFAS 151 amends the existing guidance on the recognition of inventory costs to clarify the accounting for abnormal amounts of idle expense, freight, handling costs and wasted material (spoilage). Existing rules indicate that under some circumstances, items such as idle facility expense, excessive spoilage, double freight and rehandling costs may be so abnormal as to require treatment as current period charges. SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of SFAS 151 is not expected to have a material impact on the valuation of the Company's inventory or operating results.

ITEM 7. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
IKONICS Corporation
Duluth, Minnesota

We have audited the balance sheets of IKONICS Corporation as of December 31, 2005 and 2004, and the related statements of operations, stockholders' equity and comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IKONICS Corporation as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey & Pullen, LLP

Duluth, Minnesota
January 20, 2006

IKONICS CORPORATION

BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

<TABLE>
<CAPTION>

<S>	2005 <C>	2004 <C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$3,412,072	$2,737,460
Marketable securities	84,875	124,358
Trade receivables, less allowance for doubtful accounts of $50,000 in 2005 and $75,000 in 2004 (Note 10)	1,702,608	1,642,904
Inventories (Notes 1 and 10)	2,364,056	2,201,282

Prepaid expenses and other assets	65,747	57,345
Deferred income taxes (Note 2)	99,000	143,000
Total current assets	7,728,358	6,906,349
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land and building	1,479,824	1,466,898
Machinery and equipment	2,531,734	2,442,295
Office equipment	1,280,149	1,239,811
Vehicles	174,803	175,406
	5,466,510	5,324,410
Less accumulated depreciation	4,514,945	4,295,580
	951,565	1,028,830
INTANGIBLE ASSETS, less accumulated amortization of $134,642 in 2005 and $109,728 in 2004 (Note 3)	279,086	292,349
DEFERRED INCOME TAXES (Note 2)	61,000	65,000
INVESTMENTS IN NON-MARKETABLE EQUITY SECURITIES (Note 1)	450,790	197,460
	$9,470,799	$8,489,988

</TABLE>

IKONICS CORPORATION
BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

<TABLE>
<CAPTION>

<S>	2005 <C>	2004 <C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 438,597	$ 536,391
Accrued compensation	279,042	263,510
Other accrued expenses (Note 9)	217,912	245,702
Income taxes payable	56,743	30,169
Total current liabilities	992,294	1,075,772
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
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 1,962,537 shares in 2005 and 1,930,545 shares in 2004	196,254	193,055
Additional paid-in capital	1,721,119	1,477,815
Retained earnings	6,560,236	5,745,662
Accumulated other comprehensive income (loss)	896	(2,316)
Total stockholders' equity	8,478,505	7,414,216
	$9,470,799	$8,489,988

</TABLE>

See notes to financial statements.

IKONICS CORPORATION

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2005 AND 2004

<TABLE>
<CAPTION>

<S>	2005 <C>	2004 <C>

NET SALES (Note 5)	$13,971,217	$13,682,449
COSTS AND EXPENSES:		
Cost of goods sold	7,748,707	7,556,713
Selling, general and administrative	4,383,144	4,533,294
Research and development	641,622	575,065
	12,773,473	12,665,072
INCOME FROM OPERATIONS	1,197,744	1,017,377
INTEREST INCOME	58,425	13,974
INCOME BEFORE INCOME TAXES	1,256,169	1,031,351
FEDERAL AND STATE INCOME TAXES (Note 2)	348,000	273,000
NET INCOME	$ 908,169	$ 758,351
EARNINGS PER COMMON SHARE:		
Basic	$ 0.47	$ 0.40
Diluted	$ 0.46	$ 0.38
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:		
Basic	1,944,330	1,906,771
Diluted	1,986,885	1,982,814

</TABLE>

See notes to financial statements.

IKONICS CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2005 AND 2004

<TABLE>
<CAPTION>

	COMMON STOCK		ADDITIONAL		ACCUMULATED	TOTAL
	SHARES	AMOUNT	PAID-IN CAPITAL	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME (LOSS)	STOCK-HOLDERS' EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 2003	1,872,190	$187,219	$1,207,083	$4,987,311	$(13,263)	$6,368,350
Net income	--	--	--	758,351	--	758,351
Unrealized gain on available-for-sale securities	--	--	--	--	10,947	10,947
Total comprehensive income	--	--	--	--	--	769,298
Exercise of stock options	58,355	5,836	217,100	--	--	222,936
Tax benefit resulting from stock option exercises	--	--	53,632	--	--	53,632
BALANCE AT DECEMBER 31, 2004	1,930,545	193,055	1,477,815	5,745,662	(2,316)	7,414,216
Net income	--	--	--	908,169	--	908,169
Unrealized gain on available-for-sale securities	--	--	--	--	3,212	3,212
Total comprehensive income	--	--	--	--	--	911,381
Exercise of stock options	57,491	5,749	227,042	--	--	232,791
Common stock repurchased	(25,499)	(2,550)	(19,519)	(93,595)	--	(115,664)
Tax benefit resulting from stock option exercises	--	--	35,781	--	--	

						35,781
BALANCE AT DECEMBER 31, 2005	1,962,537	$196,254	$1,721,119	$6,560,236	$ 896	$8,478,505

</TABLE>

See notes to financial statements.

IKONICS CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004

<TABLE>
<CAPTION>

<S>	2005 <C>	2004 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 908,169	$ 758,351
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	269,549	351,418
Amortization	24,914	24,574
Loss on sale of vehicles	7,992	--
Deferred income taxes	48,000	(14,000)
Tax benefit from stock option exercise	35,781	53,632
Changes in working capital components:		
Trade receivables	(59,704)	216,576
Inventories	(162,774)	(394,049)
Prepaid expenses and other assets	(8,402)	15,915
Accounts payable	(97,794)	271,647
Accrued expenses	(12,258)	74,388
Income taxes payable	26,574	(96,597)
Net cash provided by operating activities	980,047	1,261,855
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(211,276)	(270,089)
Proceeds on sale of vehicles	11,000	--
Purchase of intangibles	(11,651)	(8,906)
Purchase of non-marketable equity securities	(253,330)	(84,626)
Proceeds from sale of marketable securities	42,695	108,496
Net cash used in investing activities	(422,562)	(255,125)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	232,791	222,936
Redemption of common stock	(115,664)	--
Net cash provided by financing activities	117,127	222,936
NET INCREASE IN CASH AND CASH EQUIVALENTS	674,612	1,229,666
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,737,460	1,507,794
CASH AND CASH EQUIVALENTS AT END OF YEAR	$3,412,072	$2,737,460
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	$ 237,645	$ 330,188

</TABLE>

See notes to financial statements.

IKONICS CORPORATION

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business - IKONICS Corporation (the Company) develops and manufactures high-quality photochemical imaging systems for sale primarily to a wide range of printers and decorators of surfaces. Customers' applications are primarily screen printing and abrasive etching. The Company's principal markets are throughout the United States. In addition, the Company sells to Western Europe, Latin America, Asia, and other parts of the world. The Company extends credit to its customers, all on an unsecured basis, on terms that it establishes for individual customers.

The Company markets in Europe, Latin America, Asia, and other parts of the world. Foreign sales approximated 29.4% of total sales in 2005 and 31.4% of total sales in 2004. Forty-two percent and forty percent, respectively, of the Company's accounts receivable at December 31, 2005 and 2004 are due from foreign customers. The foreign receivables are composed primarily of open credit arrangements with terms ranging from 45 to 90 days. No single customer represented greater than 10% of net sales in 2005 or in 2004.

Segment information is not presented since all of the Company's revenue is attributed to a single reporting segment.

A summary of the Company's significant accounting policies follows:

Cash Equivalents - The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of putable variable rate municipal bonds backed by a letter of credit and money market funds in which the carrying value of both instruments approximates market value because of the short maturity of these instruments.

Marketable Securities - Marketable securities are classified as available-for-sale and consist primarily of municipal revenue bonds that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity, or changes in the availability or yield of alternative investments. These securities are carried at fair market value with changes in fair value, net of tax, recorded in other comprehensive income.

One of these municipal bonds has been in a continuous loss position for over 12 months. The fair value of the municipal bond that has been in a continuous loss position for 12 months or more at December 31, 2005 is $35,011 with an unrealized loss of $1,916. The unrealized loss is due to changes in interest rates, and, as such, is considered to be temporary by the Company.

Trade Receivables - Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on an on-going basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. Accounts are considered past due if payment is not received according to agreed-upon terms.

Inventories - Inventories are stated at the lower of cost or market using the last-in, first-out (LIFO) method. If the first-in, first-out cost method had been used, inventories would have been approximately $509,000 and $348,000 higher than reported at December 31, 2005 and 2004, respectively. The major components of inventories are as follows:

<TABLE>
<CAPTION>

	2005	2004
<S>	<C>	<C>
Raw materials	$1,483,881	$1,260,457
Work-in-progress	212,254	268,419
Finished goods	1,176,647	1,019,952
Reduction to LIFO cost	(508,726)	(347,546)
Total inventories	$2,364,056	$2,201,282

</TABLE>

Depreciation - Depreciation of property, plant and equipment is computed using the straight-line method over the following estimated useful lives:

<TABLE>
<CAPTION>

Years

<S>	<C>
Building	15-40
Machinery and equipment	5-10
Office equipment	5-10
Vehicles	3

</TABLE>

Intangibles Assets- Intangible assets consist primarily of patents, licenses and covenants not to compete arising from business combinations. Intangible assets are amortized on a straight-line basis over their estimated useful lives or terms of their agreement. Intangible assets with finite lives are assessed for impairment whenever events or circumstances indicate the carrying value may not be fully recoverable by comparing the carrying value to future undiscounted cash flows. To the extent there is impairment, analysis is performed based on several criteria, including, but not limited to, revenue trends, discounted operating cash flows and other operating factors to determine the impairment amount

Investments in Non-Marketable Equity Securities - Investments in non-marketable equity securities consist of a $253,330 investment in Imaging Technology International ("iTi"). The Company acquired 36,496 shares and warrants to purchase an additional 33,333 shares of iTi during the second quarter of 2005. At the time of the acquisition, the 36,496 shares represented 3.6% of the total outstanding common shares of iTi. iTi is a leader in the development of industrial production systems based on ink jet technology and the Company believes iTi's expertise fits strategically with the Company's expertise in developing substrates for a wide variety of industrial printing processes. The Company also has a $197,460 equity investment in Apprise Technologies, Inc., including 244,585 shares acquired for $84,626 during the fourth quarter of 2004, from exercised warrants. As of December 31, 2005, the Company's ownership of Apprise's common and preferred stock represented approximately 4.95% of the outstanding shares of Apprise. One of the Company's directors is the CEO of Apprise Technologies, Inc. The Company accounts for these investments by the cost method because the common stock of each corporation is unlisted and the criteria for using the equity method of accounting are not satisfied. The Company reviews these investments for impairment annually and writes them down whenever the recorded amount exceeds estimated fair market value.

Fair Value of Financial Instruments - The carrying amounts of financial instruments, including cash, cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to the short maturity of these instruments. The carrying value of the non-marketable equity securities approximates the estimated fair value based on management's knowledge of recent sales prices of the non-marketable equity securities.

Revenue Recognition - The Company recognizes revenue on sales of products when title passes which is usually upon shipment. Freight billed to customers is included in sales. Shipping costs are included in cost of goods sold.

Deferred 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.

Comprehensive Income - The Company's comprehensive income consists of net income and net unrealized holding gains and losses on marketable securities, net of taxes.

Earnings Per Common Share (EPS) - Basic EPS is calculated using net income divided by the weighted average of common shares outstanding during the year. Diluted EPS is similar to Basic except that the weighted average of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares, such as options, had been issued.

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

<TABLE>
<CAPTION>

	2005	2004

<S> <C> <C>

Weighted average common shares outstanding	1,944,330	1,906,771
Dilutive effect of stock options	42,555	76,043
Weighted average common and common equivalent shares outstanding	1,986,885	1,982,814

</TABLE>

Options to purchase 130,285 and 195,891 shares of common stock were outstanding as of December 31, 2005 and 2004, respectively.

Employee Stock Plan - The Company has a stock-based compensation plan, which is described more fully in Note 7. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, no stock-based employee compensation cost has been recognized, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share had compensation cost been determined based on the grant date fair values of awards (the method described in FASB Statement No. 123, Accounting for Stock-Based Compensation):

<TABLE>
<CAPTION>

<S>	Years Ended December 31, 2005 <C>	2004 <C>
Net income:		
As reported	$908,169	$758,351
Deduct total stock-based employee compensation expense determined under fair value based method for all awards	21,214	29,875
Pro forma	$886,955	$728,476
Basic earnings per share:		
As reported	$ 0.47	$ 0.40
Pro forma	$ 0.46	$ 0.38
Diluted earnings per share:		
As reported	$ 0.46	$ 0.38
Pro forma	$ 0.45	$ 0.37

</TABLE>

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

Foreign Currency Translation - Foreign currency transactions and translation adjustments did not have a significant effect on the Statements of Stockholders' Equity and Comprehensive Income and Cash Flows for 2005 and 2004.

2. INCOME TAXES

Income tax expense for the years ended December 31, 2005 and 2004 consists of the following:

<TABLE>
<CAPTION>

<S>	2005 <C>	2004 <C>
Current:		
Federal	$262,000	$248,000
State	38,000	39,000
	300,000	287,000
Deferred	48,000	(14,000)
	$348,000	$273,000

</TABLE>

The expected provision for income taxes, computed by applying the U.S. federal income tax rate of 35% in 2005 and 2004 to income before taxes, is reconciled to income tax expense as follows:

<TABLE>
<CAPTION>

	2005	2004
<S>	<C>	<C>
Expected provision for federal income taxes	$439,700	$361,100
State income taxes, net of federal benefit	25,700	20,200
Extraterritorial income exclusion	(64,700)	(94,400)
Non-deductible meals and entertainment	13,600	18,700
Tax-exempt interest	(18,100)	(9,800)
R&D Credit	(29,000)	(12,800)
Other	(19,200)	(10,000)
	$348,000	$273,000

</TABLE>

Deferred tax assets consist of the following as of December 31, 2005 and 2004:

<TABLE>
<CAPTION>

	2005	2004
<S>	<C>	<C>
Property and equipment and other assets	$ 40,000	$ 38,000
Accrued vacation	14,000	15,000
Other accrued expenses	47,000	57,000
Inventories	20,000	44,000
Allowance for doubtful accounts	18,000	27,000
Allowance for sales returns	7,000	7,000
Intangible assets	21,000	27,000
Capital loss carryforward	27,000	46,000
	194,000	261,000
Less valuation allowance	(27,000)	(46,000)
	167,000	215,000
Deferred tax liabilities:		
Prepaid expenses	7,000	7,000
	$160,000	$208,000

</TABLE>

The deferred tax amounts described above have been included in the accompanying balance sheet as of December 31, 2005 and 2004 as follows:

<TABLE>
<CAPTION>

	2005	2004
<S>	<C>	<C>
Current assets	$ 99,000	$143,000
Noncurrent assets	61,000	65,000
	$160,000	$208,000

</TABLE>

3. INTANGIBLE ASSETS

Intangible assets consist primarily of patents, licenses and covenants not to compete arising from business combinations. Intangible assets are amortized on a straight-line basis over their estimated useful lives or terms of their agreement, whichever is shorter. During 2005, application costs for two patents with total capitalized costs of $30,341 were expensed as it was determined that these projects had no future value. No impairment adjustments to intangible assets were made during the year ended December 31, 2004.

Intangible assets at December 31, 2005 and 2004 consist of the following:

<TABLE>
<CAPTION>

<S>	December 31, 2005 Gross Carrying Amount <C>	December 31, 2005 Accumulated Amortization <C>	December 31, 2004 Gross Carrying Amount <C>	December 31, 2004 Accumulated Amortization <C>
Amortized intangible assets:				
Patents	$213,728	$ (71,102)	$202,077	$ (60,980)
Licenses	100,000	(26,875)	100,000	(18,750)
Non-compete agreement	100,000	(36,664)	100,000	(29,998)
	$413,728	$(134,642)	$402,077	$(109,728)

</TABLE>

	2005	2004
Aggregate amortization expense:		
For the year ended December 31	$24,914	$24,574

Estimated amortization expense for the year ended December 31:

<TABLE>

<S>	<C>
2006	$24,709
2007	24,709
2008	24,709
2009	24,709
2010	24,709

</TABLE>

In connection with the license agreements, the Company has agreed to pay royalties ranging from 3% to 5% on the future sales of products subject to the agreements. The Company incurred $108,000 of expense under these agreements during 2005, and $104,000 during 2004.

4. PENSION PLAN

The Company has established a salary deferral plan under Section 401(k) of the Internal Revenue Code. Such deferrals accumulate on a tax-deferred basis until the employee withdraws the funds. The Company contributes 5% of each eligible employee's compensation. Total pension expense for the years ended December 31, 2005 and 2004 was approximately $150,000 and $149,000, respectively.

5. GEOGRAPHIC INFORMATION

The Company manages and operates its business on the basis of one reportable segment. See Note 1 for a brief description of the Company's business. In 2005 and 2004, the Company marketed its products in various countries throughout the world. The Company is exposed to the risk of changes in social, political, and economic conditions inherent in foreign operations, and the Company's results of operations are affected by fluctuations in foreign currency exchange rates. No single foreign country accounted for more than 10% of the Company's net sales for 2005 and 2004. Net sales by geographic area are presented by attributing revenues from external customers on the basis of where the products are sold.

<TABLE>
<CAPTION>

<S>	2005 <C>	2004 <C>
Net sales by geographic area:		
United States	$ 9,856,019	$ 9,391,501
International	4,115,198	4,290,948
	$13,971,217	$13,682,449

</TABLE>

6. STOCK OPTIONS

During 1995, the Company, with the approval of its shareholders, adopted a stock incentive plan for the issuance of up to 57,750 shares of common stock. In 1999, the Company, with the approval of its shareholders, increased the number of shares reserved for issuance under this plan to

305,250 shares and, in 2004, increased the number of shares reserved for issuance under this plan to 342,750 shares. The plan provides for granting eligible participants stock options or other stock awards, as described by the plan, at option prices ranging from 85% to 110% of fair market value at date of grant. Options granted expire up to seven years after the date of grant. Such options generally become exercisable over a one to three year period. A total of 61,934 shares of common stock are reserved for additional grants of options under the plan at December 31, 2005.

The proforma fair value disclosure in Note 1 was estimated using the Black-Scholes option pricing model with the following assumptions:

<TABLE>
<CAPTION>

	2005	2004
<S>	<C>	<C>
Dividend yield	0.0%	0.0%
Expected volatility	63.2%	60.0%
Expected life of option	five years	five years
Risk-free interest rate	3.9%	3.4%
Fair value of each option on grant date	$2.44	$3.77

</TABLE>

A summary of the status of the Company's stock option plan as of December 31, 2005 and 2004 and changes during the years then ended is presented below:

<TABLE>
<CAPTION>

	2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	195,891	$3.67	252,161	$3.67
Granted	10,250	4.32	3,000	7.01
Exercised	(57,491)	4.05	(58,355)	3.82
Expired and forfeited	(18,365)	5.66	(915)	3.06
Outstanding at end of year	130,285	3.27	195,891	3.67

</TABLE>

The following table summarizes information about stock options outstanding at December 31, 2005:

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 2005	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at December 31, 2005	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$2.00 - 2.99	60,825	1.89	$2.44	55,410	$2.42
3.00 - 3.99	42,440	0.91	3.21	38,690	3.19
4.00 - 4.99	10,250	4.32	4.32	--	--
5.00 - 5.99	9,570	0.31	5.45	9,570	5.45
6.00 - 6.99	4,950	0.31	6.00	4,950	6.00
7.00 - 7.99	2,250	3.33	7.01	750	7.01
	130,285	1.61	3.27	109,370	3.15

</TABLE>

7. CONCENTRATION OF CREDIT RISK

The Company maintains its cash balances primarily in one financial institution. As of December 31, 2005, the balance exceeded the Federal Deposit Insurance Corporation coverage. The Company reduces its exposure to credit risk by maintaining such balances with financial institutions that have high credit ratings.

Accounts receivable are financial instruments that also expose the Company to concentration of credit risk. The large number of customers comprising the Company's customer base and their dispersion across different geographic areas limits such exposure. In addition, the Company routinely assesses the financial strength of its customers and maintains an allowance for doubtful accounts that management believes will adequately provide for credit losses. Concentration of credit risk with respect to trade receivables is not significant. No one customer accounts for more than 10% of total receivables as of December 31, 2005.

8. LEASE EXPENSE

The Company leases buildings on a month-to-month basis and equipment as needed. Total rental expense for all equipment and building operating leases was $29,617 in 2005 and $56,052 in 2004.

9. CONTINGENCIES

In 2003, the Company identified a probable underpayment of sales tax. As of December 31, 2005 and 2004, the Company had accrued $130,000 and $160,000, respectively, for the future payment of such unpaid taxes.

10. LINE OF CREDIT

The Company has a $1,250,000 bank line of credit that provides for working capital financing. This line of credit is subject to annual renewal on each May 1, is collateralized by trade receivables and inventory, and bears interest at 2.00 percentage points over 30-day LIBOR. There were no outstanding borrowings under this line of credit at December 31, 2005 and 2004.

11. ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment" ("SFAS 123R"). SFAS 123R replaces FASB Statement No. 123 "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25 "Accounting for Stock Issued to Employees." The statement establishes standards for accounting for share-based payment transactions. Share-based payment transactions are those in which an entity exchanges its equity instruments for goods or services, or in which an entity incurs liabilities in exchange for goods or services, that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date (with limited exceptions). That cost will be recognized in the entity's financial statements over the period during which the employee is required to provide services in exchange for the award. The statement will be effective for the Company's first quarter of 2006. The Company intends to apply the modified prospective method and estimates the effect of adopting this statement will be to reduce basic and diluted earnings per share amounts by approximately $0.01 for fiscal year 2006. The Company also expects to continue using the Black-Scholes pricing model as allowed under SFAS 123R.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs" ("SFAS 151"). The provisions of SFAS 151 become effective for the Company for the first quarter of 2006. SFAS 151 amends the existing guidance on the recognition of inventory costs to clarify the accounting for abnormal amounts of idle expense, freight, handling costs, and wasted material (spoilage). Existing rules indicate that under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production

facilities. The adoption of SFAS 151 is not expected to have a material impact on the valuation of the Company's inventory or operating results.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 8A. 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 Rule 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 recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

There was no change in the Company's internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and Rule 15d-15(d) of the Exchange Act that occurred during the period covered by this report and that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information included in the Company's definitive proxy statement for the 2006 Annual Meeting of Shareholders under the captions "Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated by reference. The following information completes the Company's response to this Item 9.

The Company has adopted a code of ethics that applies to the Company's Chief Executive Officer, Chief Financial Officer, Controller and other employees performing similar functions. This code of ethics is filed as Exhibit 14 to this report. The Company intends to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or a waiver from, this code of ethics by posting such information on its Web site which is located at www.ikonics.com.

ITEM 10. EXECUTIVE COMPENSATION

The information included in the Company's definitive proxy statement for the 2006 Annual Meeting of Shareholders under the captions "Election of Directors--Director Compensation," "Summary Compensation Table," "Option Grants in Last Fiscal Year," "Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values" and "Employment Contracts; Termination of Employment and Change-In-Control Arrangements" is incorporated by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information included in the Company's definitive proxy statement for the 2006 Annual Meeting of Shareholders under the captions "Security Ownership of Principal Shareholders and Management" and "Equity Compensation Plan Information is incorporated by reference in response to this Item 11.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information included in the Company's definitive proxy statement for the 2006 Annual Meeting of Shareholders under the caption "Certain Relationships and Related Transactions" is incorporated by reference.

ITEM 13. EXHIBITS

The following exhibits are filed as part of this Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005:

<TABLE>
<CAPTION>

Exhibit	Description
<S>	<C>
3.1	Restated Articles of Incorporation of Company, as amended. (Incorporated by reference to the like numbered Exhibit to the Company's Registration Statement on Form 10-SB filed with the Commission on April 7, 1999 (Registration No. 000-25727).)
3.2	By-Laws of the Company, as amended. (Incorporated by reference to the like numbered Exhibit to the Company's Registration Statement on Form

	10-SB filed with the Commission on April 7, 1999 (Registration No. 000-25727).)
4	Specimen of Common Stock Certificate. (Incorporated by reference to the like numbered Exhibit to Amendment No. 1 to the Company's Registration Statement on Form 10-SB filed with the Commission on May 26, 1999 (Registration No. 000-25727).)
10.1	IKONICS Corporation 1995 Stock Incentive Plan, as amended. (Incorporated by reference to Exhibit B to the Company's proxy statement for its 2004 Annual Meeting of Shareholders filed with the Commission on March 29, 2004 (File No. 000-25727).)
10.2	2006 Bonus Program. (Incorporated by reference to the description of this Program included in the Current Report on Form 8-K filed with Commission on February 21, 2006 (File No. 000-25727).)
10.5	Revolving Credit Agreement dated April 30, 1999 between the Company and M&I Bank. (Incorporated by reference to the like numbered Exhibit to Amendment No. 1 to the Company's Registration Statement on Form 10-SB filed with the Commission on May 26, 1999 (Registration No. 000-25727).)
14	Code of Ethics. (Incorporated by reference to the like numbered Exhibit to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003 (File No. 000-25727).)
23	Consent of Independent Registered Public Accounting Firm
24	Powers of Attorney.
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO.
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO.
32	Section 1350 Certifications.

</TABLE>

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information included in the Company's definitive proxy statement for the 2006 Annual Meeting of Shareholders under the caption "Audit and Non-Audit Fees" is incorporated by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 21, 2006.

IKONICS CORPORATION

By /s/ William C. Ulland

William C. Ulland, Chairman,
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 21, 2006.

/s/ William C. Ulland
- -------------------------------------
William C. Ulland, Chairman, Chief
Executive Officer and President
(Principal Executive Officer)

/s/ Jon Gerlach
- -------------------------------------
Jon Gerlach, Chief Financial Officer
and Vice President of Finance
(Principal Financial and Accounting
Officer)

- -------------------------------------
Charles H. Andresen* Director

- ------------------------------------
Rondi Erickson* Director

- ------------------------------------
H. Leigh Severance* Director

- ------------------------------------
Gerald W. Simonson* Director

- ------------------------------------
David O. Harris* Director

- ----------

* William C. Ulland, by signing his name hereto, does hereby sign this document on behalf of each of the above named Directors of the registrant pursuant to powers of attorney duly executed by such persons.

/s/ William C. Ulland

William C. Ulland, Attorney-in-Fact

INDEX TO EXHIBITS

<TABLE>
<CAPTION>

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3.1	Restated Articles of Incorporation of Company, as amended...	Incorporated by Reference
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14	Code of Ethics..	Incorporated by Reference
23	Consent of Independent Registered Public Accounting Firm...	Filed Electronically
24	Powers of Attorney..	Filed Electronically
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO.............	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO.............	Filed Electronically
32	Section 1350 Certifications.................................	Filed Electronically

</TABLE>

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-92893 and Registration Statement No. 333-129220 of IKONICS Corporation on Form S-8 of our report dated January 20, 2006, appearing in this Annual Report on Form 10-KSB of IKONICS Corporation for the year ended December 31, 2005.

/s/ McGladrey & Pullen, LLP

Duluth, Minnesota
March 21, 2006

EXHIBIT 24

IKONICS CORPORATION

Powers of Attorney

The undersigned directors of IKONICS Corporation, a Minnesota corporation, do hereby make, constitute and appoint William C. Ulland and Jon R. Gerlach, and either of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as such director of said Corporation to an Annual Report on Form 10-KSB or other applicable form, and all amendments thereto, to be filed by said Corporation with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1934, as amended, with all exhibits thereto and other supporting documents, with said Commission, granting unto said attorneys-in-fact, and either of them, full power and authority to do and perform any and all acts necessary or incidental to the performance and execution of the powers herein expressly granted.

IN WITNESS WHEREOF, each of the undersigned have hereunto set their hands as of February 17, 2006.

/s/ William C. Ulland	/s/ David O. Harris
William C. Ulland	David O. Harris
/s/ Charles H. Andresen	/s/ Rondi Erickson
Charles H. Andresen	Rondi Erickson
/s/ Gerald W. Simonson	/s/ Leigh Severance
Gerald W. Simonson	Leigh Severance

EXHIBIT 31.1

RULE 13A-14(A)/15D-14(A) CERTIFICATIONS OF CEO

I, William C. Ulland, certify that:

1. I have reviewed this annual report on Form 10-KSB 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)) 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) 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

    c) 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: March 21, 2006

/s/ William C. Ulland

William C. Ulland
Chairman, Chief Executive Officer
and President

EXHIBIT 31.2

RULE 13A-14(A)/15D-14(A)/CERTIFICATIONS OF CFO

I, Jon Gerlach, certify that:

1. I have reviewed this annual report on Form 10-KSB 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)) 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) 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

   c) 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: March 21, 2006

/s/ Jon Gerlach

Jon Gerlach
Chief Financial Officer
and Vice President of Finance

EXHIBIT 32

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: March 21, 2006

/s/ William C. Ulland

William C. Ulland
Chairman, Chief Executive Officer
and President

Date: March 21, 2006

/s/ Jon Gerlach

Jon Gerlach
Chief Financial Officer and Vice
President of Finance