

XSUNX INC  
Form 10-K/A  
January 14, 2014

**UNITED STATES**  
**SECURITIES EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K /A**  
**Amendment No. 1**

**ANNUAL REPORT PURSUANT TO**  
**THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended September 30, 2013**

**Commission File Number 000-29621**

**XSUNX, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Colorado**  
(State of Incorporation)

**84-1384159**  
(I.R.S. Employer

Identification No.)

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**65 Enterprise, Aliso Viejo, CA 92656**

(Address of Principal Executive Offices) (Zip Code)

**(949) 330-8060**

(Registrant's Telephone Number)

Securities registered pursuant to Section 12(b) of the Act: Title of each class: **None**

Name of Each Exchange on which Registered: **N/A**

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

Title of each class: **Common Stock, no par value per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, during the preceding twelve (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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

Yes  NO

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

(Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) (Check one):

Yes  NO

As of March 31, 2013, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$5,610,354 million based on the closing price as reported on the OTCBB.

As of January 14, 2014, there were 519,821,256 shares of the registrant's company common voting stock outstanding.

Explanatory Note

The purpose of this Amendment No. 1 (the "Amendment") to the registrant's Annual Report on Form 10-K for the year ended September 30, 2013, filed with the Securities and Exchange Commission on January 14, 2014 (the "Original Form 10-K Filing Date"), is solely to furnish the following exhibits which were inadvertently filed as part of the main Form 10-K Report and excluded from the exhibit list;

Exhibit 31.1 Sarbanes Oxley Certification

Exhibit 32.1 Sarbanes Oxley Certification

In addition, in connection with the filing of this Amendment and pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as amended, the certifications of our principal executive officer and principal financial officer are attached as exhibits to the Amendment.

Except as set forth above, we have not modified or updated disclosures presented in the Original Form 10-K filing to reflect events or developments that have occurred after the date of the Original Filing. Among other things, forward-looking statements made in the Original Filing have not been revised to reflect events, results or developments that have occurred or facts that have become known to us after the date of the Original Filing (other than as discussed above), and such forward-looking statements should be read in their historical context. Accordingly, this Amendment should be read in conjunction with our filings made with the SEC subsequent to the filing of the Original Filing. This Amendment No. 1 to the Form 10-K speaks as of the original filing date of the Form 10-K and does not contain any other changes.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended (the Exchange Act ) and the Securities Act of 1933, as amended (the Securities Act ) which are subject to risks, uncertainties and assumptions that are difficult to predict. All statements in this Annual Report on Form 10-K, other than statements of historical fact, are forward-looking statements. These forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include statements, among other things, concerning our business strategy, including anticipated trends and developments in and management plans for, our business and the markets in which we operate; future financial results, operating results, revenues, gross margin, operating expenses, products, projected costs and capital expenditures; research and development programs; sales and marketing initiatives; and competition. In some cases, you can identify these statements by forward-looking words, such as estimate , expect , anticipate , project , plan , intend , believe , forecast , foresee , likely , may , should , goal , target and continue , the negative or plural of these words and other comparable terminology.

The forward-looking statements are only predictions based on our current expectations and our projections about future events. All forward-looking statements included in this Annual Report on Form 10-K are based upon information available to us as of the filing date of this Annual Report on Form 10-K. You should not place undue reliance on these forward-looking statements. We undertake no obligation to update any of these forward-looking statements for any reason. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from those expressed or implied by these statements. These factors include the matters discussed in the section entitled Item 1A: Risk Factors and elsewhere in this Form 10-K. You should carefully consider the risks and uncertainties described under this section.

For further information about these and other risks, uncertainties and factors, please review the disclosure included in this report under Item 1A Risk Factors.

## PART I

### Item 1. Business.

*In this Report, we use the terms Company, XsunX, we, us, and our, unless otherwise indicated, or the context otherwise requires, to refer to XsunX, Inc.*

## Organization

XsunX, Inc. ( XsunX, the Company or the issuer ) is a Colorado corporation formerly known as Sun River Mining Inc. ( Sun River ). The Company was originally incorporated in Colorado on February 25, 1997. Effective September 24, 2003, the Company completed a plan of reorganization and changed its name, to XsunX, Inc.

## Business Overview

XsunX focuses on providing solar energy solutions that provide the greatest bottom-line financial benefits to businesses. Our background and experience spans virtually all aspects of solar including technology assessment, design, and development.

Our business development efforts for the majority of the year ended September 30, 2013, centered on the development and marketing of a licensable low cost entry point solution for the manufacture of Copper Indium Gallium Selenide (CIGS) thin film solar cells which we call CIGSolar®.

During the period we completed the assembly of a thin film solar cell co-evaporation system central to the design of our CIGSolar® technology, and worked to calibrate the system, make adjustments to its new design as testing results warranted, and marketed the benefits of the technology to potential licensees. Such potential licensees consisted primarily of companies working to establish vertically integrated solar module manufacturing operations to service emerging demand in developing economies and regions.

In September 2013, in response to what the Company foresees as increasing demand within the commercial real-estate markets in California for the installation of solar electric photovoltaic (PV) systems, we began to prepare our operations to diversify and include services for the sale, design, and installation of solar electric PV systems. We intend to operate as a licensed contractor in California providing such services.

Initially, we plan to complete the preparation for the sale and delivery of solar PV system design and installation services in the first quarter of fiscal 2014, and begin to market to commercial and industrial business and facility owners in the California market.





We see this as a significant business development opportunity as management has the skillset associated with construction management, the licensing qualifications necessary for us to qualify as a licensed contractor in California, we have extensive experience associated with PV technologies and the design requirements associated with the delivery of a solar PV system, and there is a market demand available for us to provide these services to. We plan to focus a large portion of operations on the rapid development and market acceptance for our solar electric PV systems design and installation services.

### **Solar Industry Segments, Technology, and Pricing Trends**

The solar industry, in general, is comprised of four primary segments consisting of:

Equipment suppliers for the manufacture of photovoltaic (PV) solar cells and solar module assembly;

Manufacturers who produce solar cells and assemble solar modules;

Balance of solar PV system component suppliers who provide the materials and technologies for the assembly and operation of the end-user installed solar PV system, and;

Licensed providers of solar PV system design and installation services to end-users.

#### **PV Industry Manufacturing by Technology Type, Capacity, and Trends**

According to a September 2013 report by Bloomberg New Energy Finance, total solar module production and installations in 2013 are projected to be approximately 37 Giga Watts (GW). Technologies produced by PV type were approximately 60% Poly-silicon, 30% Mono-silicon, 4% thin film Cadmium Telluride, 2% thin film Copper Indium Gallium Selenide (CIGS), and 4% all others.

Silicon solar cells and modules comprise the super majority of PV production at approximately 90% market share, and according to an October 2013 report by NDP Solarbuzz, are anticipated to remain the dominant technology and to increase market share in 2014 while thin film technology production is expected to continue to lose market share, declining from a collective 9.4% in 2013 to 8.9% in 2014.

Controlled capital spending across the manufacturing supply chain of these PV technologies is expected to continue to follow proportionally to meet increasing product demand. Spending on capital equipment is therefore expected to remain selective as manufacturers continue to leverage installed capacities to extract maximum economies. This tactic is consistent with the highly cautious approach to investing in or transitioning next-generation technologies from the research lab to mass production by solar cell and solar module manufacturers.

### Industry Pricing and Growth Trends

According to reports by the U.S. Solar Energy Industries Association (SEIA) solar module costs in the second quarter of calendar 2013 were down by 60% compared to the first quarter of 2011. Due to an increase in demand for solar modules, and a continued consolidation of the supply chain, this trend of steep average selling price (ASP) decline for solar modules has begun to stabilize and quarter over quarter blended solar module per watt ( W ) pricing has increased by 3% from \$0.68/W in the second quarter of calendar 2013 to \$0.70/W in the third quarter calendar 2013.

Reports provided by U.S. Energy Department (USDE) indicate that the installed price reductions for solar PV systems that are driving record installation demand are primarily attributable to the steep reductions noted above in the price of solar modules. The USDE reports that from 2008 to 2012, annual average module prices on the global market fell by \$2.60/W, representing about 80% of the total decline in solar PV system installed pricing over that period.

While solar PV system installed costs have continued to decline the rebates and other forms of cash incentives for residential and commercial PV systems that are offered by state agencies and utilities in many U.S. regions have also declined. According to reports by the USDE over the period of 2011 to 2012, median cash incentives from state and utility programs fell by \$0.40/W to \$0.60/W, depending on PV system size. Still, with the installed costs for solar PV systems at all-time lows, and utility provided electric costs at all-time highs, reports by the SEIA indicate that as much as 20% of installations have forgone state and utility incentives in the first half of 2013.

Meanwhile, other sources of financial support for solar PV projects such as the 30% federal investment tax credit under Section 48(a)(3) of the Internal Revenue Code, or the Federal ITC, for the installation of certain solar power facilities until December 31, 2016, and depreciation tax incentives, can be coupled with state and utility incentives to provide significant cash value offsets to the installed costs for solar PV systems.

Together, the steep reductions to the installed per watt costs for solar PV systems and continued cash and tax incentives have created favorable market trends for the purchase and installation of residential and commercial solar PV systems. Specifically, California's PV installation market has seen continued strong growth. A report by the SEIA indicates that the second calendar quarter of 2013 ranks as the strongest second quarter in the state's history, with installations up 78% in the residential market and 26% in the non-residential market year-over-year.

For residential and non-residential projects, an enabling sales incentive for solar PV system developers has been higher retail rates for electricity and the ability for customers to use net metering (NEM) to offset up to 100% of their typical energy consumption costs, coupled with the federal 30% Investment Tax Credit, and accelerated depreciation for systems purchased by businesses.

## **Sales, Marketing and Planned Operations**

### *CIGSolar® Thin Film Systems Licensing and Sales*

We have through September 2013 devoted the majority of our resources to the development of a low cost solution for the manufacture of Copper Indium Gallium Selenide (CIGS) thin film solar cells which we call CIGSolar®. Our target market and customer for this technology are manufacturers who produce solar cells and assemble solar modules.

During the 2012 and 2013 all manufacturers of thin film solar technologies that had previously enjoyed significant per watt price advantages have seen this advantage erode and as a result there has been a continued significant reduction to the number of companies that produce or intended to produce thin film solar products in the 2013 calendar period as compared to the same period ended 2012 and 2011. This is consistent with reports by the U.S. Solar Energy Industries Association (SEIA) indicating that silicon solar modules are anticipated to remain the dominant technology and increase market share in 2014 while thin film technology production is expected to continue to lose market share, declining from a collective 9.4% in 2013 to 8.9% in 2014.

In response to these trends, we have worked to re-focus marketing efforts into developing economic regions where the modular design of our technology can allow for significantly reduced initial start-up costs. However, challenges we face in these new markets are associated with the need for our target customers to gain government and financial support necessary to execute business plans. We anticipate that this may continue to pose a challenge to us through 2014 and is consistent with an October 2013 report by NDP Solarbuzz indicating that investments in new thin-film manufacturing equipment declined to an eight-year low during 2013, but are forecast to increase in 2015, as existing suppliers and new entrants into the market plan to add capacity.

We intend to continue to market our multi-chamber CIGSolar® thermal co-evaporation technology and system to third parties, however we do not anticipate devoting substantial resources towards additional testing, calibration, or enhancements to the system until such time that we either enter into a sales agreement for the technology or the market demand for thin film technologies warrants additional investments.

Planned Solar PV System Design and Installation Services

While the market conditions for increased capital expenditures for thin film solar cell manufacturing technology continue to resolve we anticipate, and market reports substantiate, that demand for solar electric PV systems servicing commercial and industrial properties will increase and provide us with significant business development opportunities servicing the California commercial real-estate market, which ranks as the largest in the United States according to reports by the SEIA.

We plan to complete the preparation for the sale and delivery of solar PV system design and installation services in the first quarter of fiscal 2014, and begin to market to commercial and industrial business and facility owners in the California market.

We see this as a significant business development opportunity as management has the skillset associated with construction management, the licensing qualifications necessary for us to qualify as a licensed contractor in California, we have extensive experience associated with PV technologies and the design requirements associated with the delivery of a solar PV system, and there is a market demand available for us to provide these services to.

We plan to focus a large portion of operations on the rapid development and market acceptance for our solar electric PV systems design and installation services. We believe that these efforts may provide us with the fastest path to revenue generation and the ability to reduce future dependency on the sale of debt or equity to fund operations.

At this time we do not plan to manufacture CIGS solar modules for use in the solar PV systems that we market and install. The current configuration of our CIGSolar® evaporation systems have been established for marketing demonstration and development purposes, which is consistent with our licensing sales model for this technology.



Solar PV System Operations and Supply

We plan to purchase major components such as solar panels, inverters, and solar module mounting hardware directly from multiple manufacturers. We intend to establish direct factory purchasing relationships when possible. We plan to select these suppliers and components based on cost, reliability, warranty coverage, ease of installation, application design, technology advantages, and enter into contractual arrangements with major suppliers that define the general terms and conditions of our purchases, including warranties, product specifications, delivery and other customary terms.

Additionally, to compete favorably we plan to establish relationships with lenders through which we can offer financing of the systems we design and install as an alternative cash management solution for our target customers, and a sales inducement to purchase systems.

For the foreseeable future we anticipate that we will purchase the systems components for each project on an as-needed basis from the suppliers at the then-prevailing prices pursuant to purchase orders issued under any contractual arrangements we may have in place. Due to the volatility of component pricing we do not anticipate any supplier arrangements that will contain long-term pricing or volume commitments. Should our sales efforts, volume, and market conditions warrant we may in the future elect to make purchase commitments to ensure sufficient supply of components. We plan to purchase solar panels containing cells manufactured outside of China, and accordingly we do not anticipate to be adversely impacted by any U.S. government imposed tariffs on solar cells manufactured in China.

Our intent is to provide complete solar PV project design, management of engineering, facility preparations, installation of systems, repair or restoration to all affected areas resulting from the installation process, and any ongoing maintenance agreements as may be sold. To accomplish this we intend to use the services of licensed service professionals in each of the representative trades or specialties necessary. Additionally, we intend to provide qualified staff to supervise project operations, inspections, and system start up and energizing. We plan to also develop in-house installation and general assembly of systems capabilities through the addition of qualified staff.

**Competitive Solar Industry Conditions**

In the fiscal year ended September 30, 2013, over developed production capacities for silicon solar cells, which have existed for several years, continued to create highly competitive conditions for solar modules and the components and technologies used in their manufacture. According to reports by the U.S. Solar Energy Industries Association (SEIA) these competitive conditions have resulted in extensive price reductions of approximately 60% between calendar Q1 2011 and calendar Q2 2013 for solar products incorporating the use of silicon solar cells. These market sales price reductions have significantly affected operating margins at the solar module manufacturer level, and restructured the project planning process and selection of installed solar technologies at the solar PV systems project developer level.

All manufacturers of thin film solar technologies that had previously enjoyed significant per watt price advantages have seen this advantage erode and as a result there has been a continued significant reduction to the number of companies that produce or intended to produce thin film solar products in the 2013 calendar period as compared to the same period ended 2012 and 2011. This is consistent with reports by the U.S. Solar Energy Industries Association

(SEIA) indicating that silicon solar modules are anticipated to remain the dominant technology and increase market share in 2014 while thin film technology production is expected to continue to lose market share, declining from a collective 9.4% in 2013 to 8.9% in 2014.

Controlled capital spending across the manufacturing supply chain of both silicon and thin film PV technologies is, at best, expected to continue to follow proportionally to meet increasing product demand. Manufacturers, while interested in maintaining the ability to supply growth in market demand, do not want to re-create the abundant over supply conditions that created significant average selling price per watt reductions in the 2011 and 2012 periods.

Spending on capital equipment is therefore expected to remain selective as manufacturers continue to leverage installed capacities to extract maximum economies. This tactic is consistent with the highly cautious approach to investing in or transitioning next-generation technologies from the research lab to mass production by solar cell and solar module manufacturers. This trend has significantly reduced the pool of our potential customers in developed markets and our ability to produce sales associated with our CIGSolar® technology.

We anticipate that this trend will pose a challenge to us through 2014 and is consistent with an October 2013 report by NDP Solarbuzz indicating that investments in new thin-film manufacturing equipment declined to an eight-year low during 2013, but are forecast to increase in 2015, as existing suppliers and new entrants into the market plan to add capacity.



Company Response to Market Conditions

In response to the trends noted above, of reduced and cautious commitment to capital expenditures on new production capacity or new technologies in developed markets we have worked to re-focus marketing efforts into developing economic regions where the modular design of our technology can allow for significantly reduced initial start-up costs. However, challenges we face in these new markets are associated with the need for our target customers to gain government and financial support necessary to execute business plans.

We intend to continue to market our multi-chamber CIGSolar® thermal co-evaporation technology and system to third parties, but we do not anticipate devoting substantial resources towards additional testing, calibration, or enhancements to the system until such time that we either enter into a sales agreement for the technology or the market demand for thin film technologies warrants additional investments.

Conversely, the demand for, and installations of, solar PV systems has continued to increase with overall global installations of solar electricity projects projected to approach 37 giga watts in the calendar year ending 2013, an approximate 20% increase from 2012 according to reports by the SEIA. Together, the steep reductions to the installed per watt costs for solar PV systems, and continued cash and tax incentives, have created favorable market trends for the purchase and installation of residential and commercial solar PV systems. Specifically, California's PV installation market has seen continued strong growth. The reports by the SEIA indicated that the second quarter 2013 ranks as the strongest second quarter in the state's history, with installations up 78% in the residential market and 26% in the non-residential market year-over-year.

In response to these expanding opportunities for the sale of solar electric PV systems to the end user market we plan to complete the preparation for the sale and delivery of solar PV system design and installation services in the first quarter of fiscal 2014, and begin to market to commercial and industrial business and facility owners in the California market. We see this as a significant business development opportunity and we plan to focus a large portion of operations on the rapid development and market acceptance for our solar electric PV systems design and installation services.

Competition and Positioning of Our Services

As we enter the solar PV design and installation market we believe that our primary competitors will be the traditional utilities that supply energy to our target customers who are owners and operators of businesses and commercial real-estate properties. We will compete with these traditional utilities primarily based on current price, predictability of future price, and the financial cost incentives and ease by which customers can switch to electricity generated by solar PV energy systems we market. We believe that upon completion of the development of our plans we will compete favorably with regional utilities based on these factors in the areas we service.

When offering our solar PV system design and installation services we will compete with companies that provide products and services in distinct segments of the solar energy value chain. Some of the current competitors in the solar energy system installation market include American Solar Electric, Inc., Petersen Dean, Inc., Real Goods Solar, Inc., REC Solar, Inc., Verengo, Inc., Chevron Corporation, and SunPower Corporation along with many smaller local solar system companies.

We believe that upon completion of the preparation for the delivery of these new services we can compete favorably with these companies. Our plan is to focus primarily on the commercial systems market and provide extensive services in which we work with clients to establish the ideal solar PV system design through comprehensive financial analysis to determine the best return on system investment for each client. We then design, install, and service all aspects providing a single point of contact and accountability for the entire system installation and product group that we offer clients.

As an example, a customer with extensive power costs would like to mitigate long term power costs through the addition of on-site solar PV electrical generation. However, the application of solar to anyone of their existing facilities could require structure rehabilitation or modifications to allow for the solar installation. This type of project requires that the client either identify and manage numerous service and trade providers, or that they retain a licensed general contractor capable of design and rehabilitation analysis from a cost benefit standpoint, management of the engineering and permitting process, structural, soils, and facilities corrective work, and installation of the solar PV systems. Our management provides the skillset associated with construction management, the licensing qualifications necessary for us to qualify and operate as a licensed contractor in California, and we have extensive experience associated with PV technologies and the design requirements associated with the delivery of a solar PV systems.

We anticipate that while the above example may not be indicative of all projects, the ability to offer extensive or integrated services may allow us to compete outside of the typical cost per watt only analysis while also providing for significant differentiation and additional sources of sales and revenue streams.

## Intellectual Property

The following is an outline of certain patents and technologies we are developing, have acquired, or licensed:

The Company has worked to develop a hybrid manufacturing solution to produce high performance Copper Indium Gallium (di) Selenide (CIGS) thin film solar cells. Our system and processing technology, which we call CIGSolar®, focuses on the mass production of individual thin-film CIGS solar cells that match silicon solar cell dimensions and can be offered as a non-toxic, high-efficiency and lowest-cost alternative to the use of silicon solar cells.

The Company is developing a manufacturing solution to produce high performance Copper Indium Gallium Selenide (CIGS) thin film solar cells. Our system and processing technology, which we call CIGSolar®, focuses on the mass production of individual thin-film CIGS solar cells that match silicon solar cell dimensions and can be offered as a lowest-cost alternative to the use of silicon solar cells. We have designed a proprietary system for a process known as co-evaporation used in the manufacture of the solar absorbing material CIGS. Certain key features related to this system we believe may qualify for patent protection. In July 2012 we filed three (3) claims related to our thermal effusion source installation design. We have been advised by the USPTO that first action and review of this application will occur approximately fifteen (15) months from our initial filing or on or about October 2013. As we may continue to refine our designs and process technologies we may elect to abandon, modify, or file additional applications, and we may seek to enforce our claims through filing of utility patents.

In September 2003, the Company was assigned the rights to three patents as part of an Asset Purchase Agreement with Xoptix Inc., a California corporation. The patents acquired were No. 6,180,871 for Transparent Solar Cell and Method of Fabrication (Device), granted on January 30, 2001; No. 6,320,117 for Transparent Solar Cell and Method of Fabrication (Method of Fabrication), granted on November 20, 2001; and No. 6,509,204 for Transparent Solar Cell and Method of Fabrication (formed with a Schottky barrier diode and method of its manufacture), granted on January 21, 2003. We do not currently employ nor envision the use of the above named patents in the development or commercialization of our CIGSolar® technology. Because of technological and business developments within the solar industry, we believe that these patents no longer provide business opportunities for the Company to pursue.

On July 10, 2012, the United States Patent and Trademark Office issued a certificate of registration No. 4,172,218 granting the Company a trademark for the use of CIGSolar .

As we may continue to develop new technologies or business methods, we may actively seek patent protection for certain aspects related to methods and apparatus we develop. We can give no assurance that any such patent(s) will be granted for any process and manufacturing technology that we may develop individually or in conjunction with third parties.

We rely on trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our proprietary rights. We have not been subject to any intellectual property claims.

### **Government Contracts**

There are no government contracts as of the fiscal year ended September 30, 2013.

### **Compliance with Environmental Laws and Regulations**

The operations of the Company are subject to local, state and federal laws and regulations governing environmental quality and pollution control. Compliance with these regulations by the Company has required that, when necessary, we retain the use of consulting firms to assist in the engineering and design of systems related to equipment operations, management of industrial gas storage and delivery systems, and occupancy fire and safety construction standards to deal with emergency conditions. We do not anticipate that these costs will have a material effect on the Company's operations or competitive position, and the cost of such compliance has not been material to date. The Company is unable to assess or predict at this time what effect additional regulations or legislation could have on its activities.

### **Employees and Consultants**

As of the fiscal year ended September 30, 2013, we had three employees including Mr. Tom Djokovich who is the President and CEO. This represents no change to the same period ended 2012. To compensate our need for scientific and technical productivity the Company also relies on qualified consultants to perform specific functions that otherwise would require an employee. As we expand our business developments efforts to include solar PV system design and installations we will need to add staff to adequately respond to sales inquiries, project management, and general labor as warranted. We consider relations with our employees and consultants to be good.



## Available Information

Our website address is [www.xsunx.com](http://www.xsunx.com). We make available on our website access to our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports that we have filed with the U.S. Securities and Exchange Commission ( SEC ). The information found on our website is not part of this or any other report we file with, or furnish to, the SEC.

## Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this Annual Report on Form 10-K, in evaluating XsunX and our business. If any of the following risks occur, our business, financial condition and results of operations could be materially and adversely affected. Accordingly, the trading price of our common stock could decline and you may lose all or part of your investment in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations.

### ***We Have Not Generated Any Significant Revenues and Our Financial Statements Raise Substantial Doubt About Our Ability to Continue As A Going Concern.***

We are a development stage company and, to date, have not generated any significant revenues. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate our continuation as a going concern. Net loss for the years ended September 30, 2013 and 2012 was \$(2,522,382) and \$(1,555,194), respectively. Net cash used for operations was \$(441,718) and \$(379,240) for the years ended September 30, 2013 and 2012, respectively. At September 30, 2013, we had a working capital deficit of \$(889,448). From inception through September 30, 2013, we had an accumulated deficit of \$(39,115,035) at September 30, 2013.

The items discussed above and herein raise substantial doubt about our ability to continue as a going concern. We cannot assure you that we can achieve or sustain profitability in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including whether our product development can be completed, whether our products will achieve market acceptance and whether we obtain additional financing. We may not achieve our business objectives and the failure to achieve such goals would have a materially adverse impact on us.

***We expect that we will need to obtain additional financing to continue to operate our business, including expenditures to expand operations for the sales, design, and installation of solar PV systems, and to continue to complete the commercialization of marketable thin film manufacturing technologies. This financing may be unavailable or available only on disadvantageous terms which could cause the use to curtail our business operations and delay the execution of our business plan.***

We have in the past experienced substantial losses and negative cash flow from operations and have required financing, including equity and debt financing, in order to pursue the commercialization of products based on our technologies. We expect that we will continue to need significant financing to operate our business. Furthermore, there can be no assurance that additional financing will be available or that the terms of such additional financing, if available, will be acceptable to us. If additional financing is not available or not available on terms acceptable to us, our ability to fund our operations, successfully expand operations to include the sales, design, and installation of solar PV systems, complete the sales or development of marketable technologies, products, or services, develop a sales network, or otherwise respond to competitive pressures may be significantly impaired. We could also be forced to curtail our business operations, reduce our investments, decrease or eliminate capital expenditures and delay the execution of any portion or all of our business plans, including, without limitation, all aspects of our operations, which would have a material adverse effect on our business.

***We may be required to raise additional financing by issuing new securities with terms or rights superior to those of our shares of common stock, which could adversely affect the market price of our shares of common stock and our business.***

We will require additional financing to fund future operations, including expansion in current and new markets, development and acquisition, capital costs and the costs of any necessary implementation of technological innovations or alternative technologies. We may not be able to obtain financing on favorable terms, if at all. If we raise additional funds by issuing equity securities, the percentage ownership of our current stockholders will be reduced, and the holders of the new equity securities may have rights superior to those of the holders of shares of common stock, which could adversely affect the market price and the voting power of shares of our common stock. If we raise additional funds by issuing debt securities, which we have relied on significantly during the year ended September 30, 2013, the holders of these debt securities could have some rights senior to those of the holders of shares of common stock, and the terms of these debt securities could impose restrictions on operations and create a significant interest and derivative expenses for us which could have a materially adverse effect on our business.

***As we enter the solar PV system sales, design, and installation market existing electric utility industry regulations, and changes to regulations, may present technical, regulatory and economic barriers to the purchase and use of solar energy systems that may significantly reduce demand for the solar energy systems we design and market.***

Federal, state and local government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by electric utilities, heavily influence the market for electricity generation products and services. These regulations and policies often relate to electricity pricing and the interconnection of customer-owned electricity generation. In the United States, governments and utilities continuously modify these regulations and policies. These regulations and policies could deter customers from purchasing renewable energy, including solar energy systems. This could result in a significant reduction in the potential demand for our solar energy systems. For example, utilities commonly charge fees to larger, industrial customers for disconnecting from the electric grid or for having the capacity to use power from the electric grid for back-up purposes. These fees could increase our target customers' cost to use our systems and make them less desirable, thereby harming our future business, prospects, financial condition and results of operations.

In addition, any changes to government or internal utility regulations and policies that favor electric utilities could reduce our competitiveness and cause a significant reduction in demand for our products and services. For example, certain jurisdictions have proposed imposing a new charge that would disproportionately impact solar energy system customers who utilize net metering, either of which would increase the cost of energy to those customers and could reduce demand for our solar energy systems. Any similar government or utility policies adopted in the future could reduce demand for our products and services and adversely impact our growth.

***As we enter the solar PV system sales, design, and installation market we rely on net metering and related policies to offer competitive pricing to our target customers in our key market of California.***

California has a regulatory policy known as net energy metering, or net metering. Net metering typically allows our target customers to interconnect their on-site solar energy systems to the utility grid and offset their utility electricity purchases by receiving a bill credit at the utility's retail rate for energy generated by their solar energy system in excess of electric load that is exported to the grid. At the end of the billing period, the customer simply pays for the net energy used or receives a credit at the retail rate if more energy is produced than consumed. Our ability to sell solar energy systems or the benefits of the electricity they generate may be adversely impacted by the failure to expand existing limits on the amount of net metering, or the imposition of new charges that only or disproportionately impact customers that utilize net metering. Our ability to sell solar energy systems or the benefits of the electricity they generate may also be adversely impacted by the unavailability of expedited or simplified interconnection for grid-tied solar energy systems or any limitation on the number of customer interconnections or amount of solar energy that utilities are required to allow in their service territory or some part of the grid.

Limits on net metering, interconnection of solar energy systems and other operational policies in our key market could limit the number of solar energy systems installed there. For example, California utilities are currently required to



provide net metering to their customers until the total generating capacity of net metered systems exceeds 5% of the utilities' aggregate customer peak demand. This cap on net metering in California was increased to 5% in 2010 as utilities neared the prior cap of 2.5%. New California legislation passed in October 2013 establishes a process and timeline for developing a new program with no participation cap that would apply after the current cap of 5% is reached. If the current net metering caps in California, are reached, or if the amounts of credit that customers receive for net metering are significantly reduced, our target customers will be unable to recognize the current cost savings associated with net metering. We anticipate that we will substantially rely on net metering to establish competitive pricing for our solar PV system sales with our prospective customers. The absence of net metering for customer acquisition would greatly limit demand and our ability to effectively market our solar energy system benefits.

***As we enter the solar PV system sales, design, and installation market these business operations will depend on the availability of rebates, tax credits and other financial incentives. The expiration, elimination or reduction of these rebates, credits and incentives would adversely impact our planned business expansion.***

U.S. federal, state and local government bodies provide incentives to end users, distributors, system integrators and manufacturers of solar energy systems to promote solar electricity in the form of rebates, tax credits and other financial incentives such as system performance payments and payments for renewable energy credits associated with renewable energy generation. We will rely on these governmental rebates, tax credits and other financial incentives to market the low cost operating and investment benefits of solar PV systems to our target customers. However, these incentives may expire on a particular date, end when the allocated funding is exhausted, or be reduced or terminated as solar energy adoption rates increase. Certain reductions or terminations could occur without warning.

The federal government currently offers a 30% investment tax credit under Section 48(a)(3) of the Internal Revenue Code, or the Federal ITC, for the installation of certain solar power facilities until December 31, 2016. This credit is due to adjust to 10% in 2017. Reductions in, or eliminations or expirations of, governmental incentives could adversely impact our future results of operations and our ability to offer solar PV systems as a competitive alternative to utility provided electricity.

***A material drop in the retail price of utility-generated electricity or electricity from other sources would harm our business development efforts as we enter the solar PV system sales, design, and installation market and cause a material adverse effect to our future financial condition and results of operations.***

Our target customer's decision to invest in renewable energy through us will be primarily driven by their desire to pay less for electricity. The customer's decision may also be affected by the cost of other renewable energy sources. Decreases in the retail prices of electricity from the utilities or from other renewable energy sources would harm our ability to offer competitive alternatives and could harm our business. The price of electricity from utilities could decrease as a result of any number of market conditions including:

the construction of a significant number of new power generation plants, including nuclear, coal, natural gas or renewable energy technologies, and ;

a reduction in the price of natural gas as a result of new drilling techniques or a relaxation of associated regulatory standards.

A reduction in utility electricity prices would make the investment by our target customers into the solar PV systems that we design and install less economically attractive. In addition, a shift in the timing of peak rates for utility-generated electricity to a time of day when solar energy generation is less efficient could make our solar energy system offerings less competitive and reduce demand for our products and services. If the retail price of energy available from utilities were to decrease due to any of these reasons, or others, we would be at a competitive disadvantage, we may be unable to attract customers and our growth would be limited.

***A material drop in the retail price of utility-generated electricity would particularly adversely impact our ability to attract commercial customers which represent our target customer base.***

We anticipate that commercial customers will comprise a significant portion of our business, and the commercial market for energy is particularly sensitive to price changes. Typically, commercial customers pay less for energy from utilities than residential customers. Any future decline in the retail rate of energy for commercial entities could have a significant impact on our ability to attract commercial customers. We may be unable to offer solar energy systems for the commercial market that produce electricity at rates that are competitive with the price of retail electricity on a

non-subsidized basis. If this were to occur, we would be at a competitive disadvantage to other energy providers and may be unable to attract new commercial customers, and our future business operations would be harmed.

***Rising interest rates could adversely impact all aspects of our current and planned business operations.***

Changes in interest rates could have an adverse impact on our business by increasing the cost of capital for our target customers. For example rising interest rates may negatively impact our ability to provide financing sources on favorable terms to facilitate our customers' purchase of our solar PV systems.

***As we enter the solar PV system sales, design, and installation market we will act as the licensed general contractor for our customers and will be subject to risks associated with construction, cost overruns, delays, regulatory compliance and other contingencies, any of which could have a material adverse effect on our business and results of operations.***

We intend to and are required to operate as a licensed contractor in every region we intend to service, and we will be responsible for every customer installation. For our commercial solar PV system projects, we intend to be the general contractor and construction manager, and we will typically rely on licensed subcontractors representing specialty trades such as electrical, roofing, and carpentry to install the commercial systems we sell. We may be liable to customers for any damage we cause to their facility, belongings or property during the installation of our systems. For example, we will frequently penetrate our customers' roofs during the installation process and may incur liability for the failure to adequately weatherproof such penetrations following the completion of construction. In addition, any shortages that may occur of skilled subcontractor labor for our commercial projects could significantly delay a project or otherwise increase our costs. Because our profit on a particular installation will be based in part on assumptions as to the cost of such project, cost overruns, delays or other execution issues may cause us to not achieve our expected margins or cover our costs for that project.

In addition, the installation of solar energy systems and the evaluation and modification of buildings that may be necessary as part of our business is subject to oversight and regulation in accordance with national, state and local laws and ordinances relating to building codes, safety, environmental protection, utility interconnection and metering, and related matters. Any new government regulations or utility policies pertaining to the systems we design and install may result in significant additional expenses to us and our future customers and, as a result, could cause a significant reduction in demand for our systems and services.

***Compliance with occupational safety and health requirements and best practices can be costly, and noncompliance with such requirements may result in potentially significant monetary penalties, operational delays and adverse publicity.***

The installation of solar energy systems will require our employees and any subcontractors that we engage to work at heights with complicated and potentially dangerous electrical systems. The evaluation and modification of buildings that may be necessary as part of our business may require our employees to work in locations that may contain potentially dangerous levels of asbestos, lead or mold. Our operations are subject to regulation under the U.S. Occupational Safety and Health Act, or OSHA, and equivalent state laws. Changes to OSHA requirements, or stricter interpretation or enforcement of existing laws or regulations, could result in increased costs. If we fail to comply with applicable OSHA regulations, even if no work-related serious injury or death occurs, we may be subject to civil or criminal enforcement and be required to pay substantial penalties, incur significant capital expenditures, or suspend or limit operations.

***As we enter the solar PV system sales, design, and installation market future problems with product quality or performance may cause us to incur warranty expenses or performance guarantee expenses, and may damage our market reputation and cause our financial results to decline.***

Solar energy system warranties are lengthy. Customers in our target market of California who purchase solar energy systems that we have designed and installed will be covered by a warranty of up to 10 years in duration for material and workmanship. We may also make extended warranties available at an additional cost to customers. In addition, we will provide a pass-through of the module mounting, inverter and panel manufacturers' warranties to our customers, which generally range from 5 to 25 years. One or more of these third-party manufacturers could cease operations and no longer honor a stated warranty leaving us to fulfill these potential obligations to our customers.

As we enter the solar PV system installation market we will have a limited operating history of the solar energy systems we design and install. We will be required to make assumptions and apply judgments regarding a number of factors, including our anticipated rate of warranty claims, and the durability, performance and reliability of our solar energy systems. We initially intend to make these assumptions based on the historic performance of similar systems or on accelerated life cycle testing of the third party materials and components used in the assembly of the systems we sell. Our assumptions could prove to be materially different from the actual performance of our systems, causing us to incur substantial expense to repair or replace defective solar energy systems in the future. Any widespread product

failures or operating deficiencies may damage our market reputation and adversely impact our future financial results.

***If products and technologies that we market or products based on technologies we are developing cannot be developed for manufacture and sold commercially or our products or the products we market become obsolete or noncompetitive, we may be unable to recover our investments or achieve profitability which will have a materially adverse effect on our business.***

There can be no assurance that any of the products that we will market that comprise the solar PV systems we intend to offer will gain or maintain market acceptance, or our research and development efforts will be successful or that we will be able to develop commercial applications for our products and technologies. Further, the areas in which we have developed technologies and products are characterized by rapid and significant technological change. Rapid technological development may result in our products becoming obsolete or noncompetitive. If products based on our technologies cannot be developed for manufacture and sold commercially or our products become obsolete or noncompetitive, we may be unable to recover our investments or achieve profitability. In addition, any commercialization schedule may be delayed if we experience delays in meeting development goals, if products based on our technologies exhibit technical defects, or if we are unable to meet cost or performance goals. In this event, potential purchasers of products based on our technologies may choose alternative technologies and any delays could allow potential competitors to gain market advantages.

***There is no assurance that the market will accept the products that we offer or have developed once development has been completed which could have an adverse effect on our business.***

There can be no assurance that products we market or products based on our technologies that we market will be perceived as being superior to existing products or new products offered or being developed by competing companies or that such products will otherwise be accepted by consumers. The market prices for products based on our technologies may exceed the prices of competitive products based on existing technologies or new products based on technologies currently under development by competitors. There can be no assurance that the prices of products based on our technologies will be perceived by consumers as cost-effective or that the prices of such products will be competitive with existing products or with other new products or technologies. If consumers do not accept products based on our technologies, we may be unable to recover our investments or achieve profitability.

***There is no assurance that the market will accept our planned efforts to offer design, engineering, and installation services for solar electric PV systems which could have an adverse effect on our business.***

The market for sales and installation of solar electric PV systems is highly competitive with limited barriers to entry by potential competitors. There can be no assurance that the products and services we will offer will be perceived as being superior or a better value to other similar products and services offered by competing companies or that such products will otherwise be accepted by consumers. If consumers do not accept our design, engineering, and installations services at the pricing we offer we may be unable to recover our investments, make sales of any significance, or achieve profitability.

***Other companies, many of which have greater resources than we have, may develop or offer competing products or technologies which may cause products based on our technologies or the technologies we market to become noncompetitive which could have an adverse effect on our business.***

We have and will continue to compete with firms, both domestic and foreign, that perform research and development, as well as firms that manufacture and sell solar products. In addition, we expect additional potential competitors to enter the markets for solar products in the future. Some of these current and potential competitors are among the largest industrial companies in the world with longer operating histories, greater name recognition, access to larger customer bases, well-established business organizations and product lines and significantly greater resources and research and development staff and facilities. There can be no assurance that one or more such companies will not succeed in developing technologies or products that will become available for commercial sale prior to our products, that will have performance superior to products based on our technologies or that would otherwise render our products noncompetitive. If we fail to compete successfully, our business would suffer and we may lose or be unable to gain market share.

There continues to be a few thin film companies that produce thin film solar products such as First Solar and Solar Frontier, and a limited number of others, compared to previous periods, are currently working to develop and commercialize thin film manufacturing methods. Given the benefit of time, investment, and advances in manufacturing technologies any of these competing technologies may achieve manufacturing costs per watt lower than cost per watt to manufacture technologies developed by us. However, while these risks do exist the Company believes that the more prevalent and greater risk posing both the Company, and the thin film market, will continue to be further and prolonged market price reductions from manufacturers of silicon solar technologies. The majority of the companies within the silicon industry have greater resources to devote to research, development, manufacturing and marketing than we do.

***The loss of strategic relationships used in provisioning the products that comprise the solar PV systems that we intend to offer, and strategic relationships used in any future development of our thin film manufacturing technologies and products could impede our ability to offer competitive solar PV system products or further the development of our products and have a material adverse effect on our business.***

We have established a plan of operations under which a significant portion of our operations will rely on strategic relationships with third parties to provide materials and components necessary for the assembly of solar PV systems, systems design, assembly and support, and any future development of our thin film technologies. A loss of any of our third party relationships for any reason could cause us to experience difficulties in implementing our business strategy. There can be no assurance that we could establish other relationships of adequate expertise in a timely manner or at all.

***We may suffer the loss of key personnel or may be unable to attract and retain qualified personnel to maintain and expand our business which could have a material adverse effect on our business.***

Our success is highly dependent on the continued services of a limited number of skilled managers, technicians, and access to qualified consultants and licensed subcontractors. The loss of any of these individuals or resources will have a material adverse effect on us. In addition, our success will depend upon, among other factors, the recruitment and retention of additional highly skilled and experienced management and technical personnel. There can be no assurance that we will be able to retain existing employees or to attract and retain additional personnel on acceptable terms given the competition for such personnel in industrial, academic and nonprofit research sectors.

***We may not be successful in protecting our intellectual property and proprietary rights and may be required to expend significant amounts of money and time in attempting to protect these rights. If we are unable to protect our intellectual property and proprietary rights, our competitive position in the market could suffer.***

Our current intellectual property consists of patent applications, trade secrets, and trade dress. Our success depends in part on our ability to create and maintain intellectual property to differentiate our services, how we provision our services, the ability to obtain patents as either business processes or technology development mature, and maintain adequate protection of our other intellectual property for our technologies and products in the U.S. and in other countries. The laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the U.S., and many companies have encountered significant problems in protecting their proprietary rights in these foreign countries. These problems may be caused by, among other factors, a lack of rules and methods for defending intellectual property rights. Also, the costs associated with the development of intellectual property rights can be significant and we may not be able to pursue rights initially in any region that we operate in and that may pose competitive challenges to us.

Our future commercial success may require us not to infringe on patents and proprietary rights of third parties, or breach any licenses or other agreements that we have entered into with respect to the products that we market, our technologies, products and businesses. The enforceability of patent positions cannot be predicted with certainty. We have in the past applied for patents covering certain aspects of the technology we have developed and we may elect to file additional patents, if any, as we deem appropriate. Patents, if issued, may be challenged, invalidated or circumvented. There can be no assurance that no other relevant patents have been issued that could block our ability to obtain patents or to operate as we would like. Others may develop similar technologies or may duplicate technologies developed by us.

We are not currently a party to any litigation with respect to any of our patent positions or trade secrets. However, if we become involved in litigation or interference proceedings declared by the United States Patent and Trademark Office, or other intellectual property proceedings outside of the U.S., we might have to spend significant amounts of money to defend our intellectual property rights. If any of our competitors file patent applications or obtain patents that claim inventions or other rights also claimed by us, we may have to participate in interference proceedings declared by the relevant patent regulatory agency to determine priority of invention and our right to a patent of these inventions in the U.S. Even if the outcome is favorable, such proceedings might result in substantial costs to us, including, significant legal fees and other expenses, diversion of management time and disruption of our business. Even if successful on priority grounds, an interference proceeding may result in loss of claims based on patentability grounds raised in the interference proceeding. Uncertainties resulting from initiation and continuation of any patent or related litigation also might harm our ability to continue our research or to bring products to market.

An adverse ruling arising out of any intellectual property dispute, including an adverse decision as to the priority of our inventions would undercut or invalidate our intellectual property position. An adverse ruling also could subject us to significant liability for damages, prevent us from using certain processes or products, or require us to enter into royalty or licensing agreements with third parties. Furthermore, necessary licenses may not be available to us on satisfactory terms, or at all.



***Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.***

To protect our proprietary business methods, technologies and processes, we rely on trade secret protection and we have also sought formal legal devices such as patents. Although we have taken security measures to protect our trade secrets and other proprietary information, these measures may not provide adequate protection for such information. Our policy is to execute confidentiality and proprietary information agreements with each of our employees and consultants upon the commencement of an employment or consulting arrangement with us. These agreements generally require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential and not be disclosed to third parties. These agreements also generally provide that technology conceived by the individual in the course of rendering services to us shall be our exclusive property. Even though these agreements are in place there can be no assurances that that trade secrets and proprietary information will not be disclosed, that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets, or that we can fully protect our trade secrets and proprietary information. Violations by others of our confidentiality agreements and the loss of employees who have specialized knowledge and expertise could harm our competitive position and cause our sales and operating results to decline as a result of increased competition. Costly and time-consuming litigation might be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection might adversely affect our ability to continue our research or bring products to market.

***Downturns in general economic conditions could adversely affect our ability to attract customers and our potential for future profitability.***

Downturns in general economic conditions can cause fluctuations in demand for any products we may offer, product prices, volumes and margins. Economic conditions may at any time not be favorable to our industry. A decline in the demand for our products and services or a shift to lower-margin products due to deteriorating economic conditions could adversely affect sales of our intended products and our profitability and could also result in impairments of certain of our assets.

***Market demand and finished product pricing conditions could adversely affect the demand for our technology or the products and services we may offer, our competitive position, and collectively our ability to commercialize our technology and any potential for future profitability.***

We believe that a risk posing both the Company, and the thin film solar product market, will continue to be further and prolonged market price reductions from manufacturers of silicon solar technologies. While the primary cause for price reductions appears to be over supply which has also caused significant losses for many manufacturers the trend of oversupply may continue for the foreseeable future. Many of the companies within the silicon industry have greater resources to devote to research, development, manufacturing and marketing than we do. These factors will cause a decline in interest in our technologies and pose significant threats to our ability to successfully attract customers and commercialize our technologies.

***Standards for compliance with section 404 of The Sarbanes-Oxley Act Of 2002 are subject to change, and if we fail to comply in a timely manner, our business could be harmed and our stock price could decline.***

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report. The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards and will impose significant additional expenses on us. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. If we cannot assess our internal control over financial reporting as effective, investor confidence and share value may be negatively impacted.

***Our common stock is considered a Penny Stock and as a result, related broker-dealer requirements affect its trading and liquidity.***

Our common stock is considered to be a penny stock since it meets one or more of the definitions in Rules 15g-2 through 15g-6 promulgated under Section 15(g) of the Exchange Act. These include but are not limited to the following: (i) the common stock trades at a price less than \$5.00 per share; (ii) the common stock is not traded on a recognized national exchange; (iii) the common stock is not quoted on the NASDAQ Stock Market, or (iv) the common stock is issued by a company with average revenues of less than \$6.0 million for the past three (3) years. The principal result or effect of being designated a penny stock is that securities broker-dealers cannot recommend our Common Stock to investors, thus hampering its liquidity.

Section 15(g) and Rule 15g-2 require broker-dealers dealing in penny stocks to provide potential investors with documentation disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the documents before effecting any transaction in a penny stock for the investor's account. Potential investors in our Common Stock are urged to obtain and read such disclosure carefully before purchasing any of our shares.

Moreover, Rule 15g-9 requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives.

***The trading market in our common stock is limited and may cause volatility in the market price.***

Our common stock is currently traded on a limited basis on the OTCBB. The OTCBB is an inter-dealer, over-the-counter market that provides significantly less liquidity than the NASDAQ Stock Market and the other national markets. Quotes for stocks included on the OTCBB are not listed in the financial sections of newspapers as are those for the NASDAQ Stock Market. Therefore, prices for securities traded solely on the OTCBB may be difficult to obtain.

The quotation of our common stock on the OTCBB does not assure that a meaningful, consistent and liquid trading market currently exists, and in recent years such market has experienced extreme price and volume fluctuations that have particularly affected the market prices of many smaller companies like us. Thus, the market price for our common stock is subject to volatility and holders of common stock may be unable to resell their shares at or near their original purchase price or at any price. In the absence of an active trading market:

investors may have difficulty buying and selling or obtaining market quotations;

market visibility for our common stock may be limited; and

a lack of visibility for our common stock may have a depressive effect on the market for our common stock.

Due to the low price of the securities, many brokerage firms may not be willing to effect transactions in the securities. Even if a purchaser finds a broker willing to effect a transaction in these securities, the combination of brokerage commissions, state transfer taxes, if any, and any other selling costs may exceed the selling price. Further, many lending institutions will not permit the use of such securities as collateral for any loans. Such restrictions could have a materially adverse effect on our business.

***We may have difficulty raising necessary capital to fund operations as a result of market price volatility for our shares of common stock.***

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including:

technological innovations or new products and services by us or our competitors;

additions or departures of key personnel;

sales of our common stock;

our ability to integrate operations, technology, products and services;

our ability to execute our business plan;

operating results below expectations;

loss of any strategic relationship;

industry developments;

economic and other external factors; and

period-to-period fluctuations in our financial results.

Because we have a limited operating history with limited revenues to date, you may consider any one of these factors to be material. Our stock price may fluctuate widely as a result of any of the above listed factors. In recent years, the securities markets in the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations that have not necessarily been related to the operations, performances, underlying asset values or prospects of such companies. For these reasons, our shares of common stock can also be expected to be subject to volatility resulting from purely market forces over which we will have no control. If our business development plans are successful, we will require additional financing to continue to develop and exploit existing and new technologies and to expand into new markets. The exploitation of our technologies may, therefore, be dependent upon our ability to obtain financing through debt, equity or other means.

#### **Item 1B. Unresolved Staff Comments**

As of the date of this Annual Report on Form 10-K, there are no unresolved staff comments regarding our previously filed periodic or current reports under the Securities Exchange Act of 1934, as amended.

## Item 2. Properties

### California Corporate Office Lease

At September 30, 2013, the Company leased a corporate facilities located in Aliso Viejo and Irvine, CA. The lease for the Aliso Viejo location is month to month at a rate of \$200 per month. The Company s \$3,000 per month 12 month lease for its Irvine shop location expired July 30, 2013 and the Company continued to rent month to month at the modified rate of \$2,500 per month.

In September 2013, the property owner advised the Company that they had sold the property and requested that we vacate the Irvine shop location by the end of October 2013. The Company plans to rent temporary facilities while it evaluates relocation options and requirements for the support of the planned operations as we expand our business development efforts to include the sales, design, and installation of solar PV systems.

The Company owns no real property.

## Item 3. Legal Proceedings

In the ordinary conduct of our business, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results. However, in the period ended June 30, 2012 we did elect to settle the following claim which terms and conditions were completed July 1, 2013;

In accordance with a Stipulation for Settlement of Claims, dated June 27, 2012, by and between Ironridge Global IV, Ltd ( Ironridge ) and the Company as documented in Los Angeles County Superior Court Case No. BX484549, the Company has issued a total of 71,084,017 shares of the Company s common stock, no par value ( Common Stock ) to Ironridge in settlement of the *bona fide* accounts payable of the Company, which had been purchased by Ironridge from certain creditors of the Company, in an amount equal to approximately \$494,561 in accounts payable and \$54,317 for agent and attorney fees associated with the transaction. The transaction thereby substantially reduced the Company s liabilities, including its outstanding accounts payable balance associated with the assembly of the Company s CIGSolar thermal evaporation technology.

**Item 4. Mining and Safety Disclosures**

Not Applicable

**PART II****Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities****Price Range of Common Stock**

The Company's common stock trades on the OTC Bulletin Board under the symbol "XSNX". The range of high, low and close quotations for the Company's common stock by fiscal quarter within the last two fiscal years, as reported by the OTC Markets, was as follows:

| <b>Year Ended September 30, 2013</b>    | <b>High</b> | <b>Low</b> | <b>Close</b> |
|---|-------------|------------|--------------|
| First Quarter ended December 31, 2012   | 0.030       | 0.008      | 0.0109       |
| Second Quarter ended March 31, 2013     | 0.023       | 0.008      | 0.0168       |
| Third Quarter ended June 30, 2013       | 0.017       | 0.008      | 0.0120       |
| Fourth Quarter ended September 30, 2013 | 0.073       | 0.004      | 0.0044       |
| <b>Year Ended September 30, 2012</b>    |             |            |              |
| First Quarter ended December 31, 2011   | 0.070       | 0.020      | 0.023        |
| Second Quarter ended March 31, 2012     | 0.050       | 0.020      | 0.034        |
| Third Quarter ended June 30, 2012       | 0.037       | 0.019      | 0.028        |
| Fourth Quarter ended September 30, 2012 | 0.068       | 0.025      | 0.028        |

The market price for our common stock, like that of other technology companies, is highly volatile and is subject to fluctuations in response to variations in our operating results, announcements related to technological innovation or business development, or other events and factors. Our stock price may also be affected by broader market trends unrelated to our performance.





The above quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

### **Number of Holders**

As of September 30, 2013, there were approximately 288 record holders of the Company's common stock, not counting shares held in street name brokerage accounts, which account for an approximate 16,000 additional stock holders. As of September 30, 2013, there were 429,043,441 shares of common stock outstanding on record with the Company's stock transfer agent, Island Stock Transfer.

### **Transfer Agent**

Our transfer agent is Island Stock Transfer located at 15500 Roosevelt Boulevard, Suite 301, Clearwater, Florida 33760, Office phone: 727-289-0010| Fax: 727-289-0069.

### **Dividends**

The Company has not declared or paid any cash dividends on its common stock and does not anticipate paying dividends for the foreseeable future.

### **Stock Option Plan**

On January 5, 2007, the Board of Directors of XsunX resolved to establish the Company's 2007 Stock Option Plan (the Plan) to enable the Company to obtain and retain the services of the types of employees, consultants and directors who could contribute to the Company's long range success and to provide incentives which are linked directly to increases in share value which will inure to the benefit of all stockholders of the Company. Options granted under the Plan may be either Incentive Options or Nonqualified Options and shall be administered by the Company's Board of Directors ("Board"). Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. Notwithstanding any other provision of the Plan or of any Option agreement, each Option shall expire on the date specified in the Option agreement. A total of 20,000,000 shares of common stock are authorized under the plan, and at September 30, 2013 9,500,000 options are issued and outstanding under the Plan.

**Stock Compensation, Issuance of Stock Purchase Options**

During the year ended September 30, 2013 the Company granted 1,000,000 stock options to each of the four non-affiliated members of its Board of Directors for a total of 4,000,000 options for continued services and performance to the Company. Each option vested upon issuance and provides for an exercise price of \$0.014 per share (104% of the market price on the date of grant) and expire on March 21, 2016. The Company also granted 500,000 stock options to a consultant as incentive for services and performance to the Company. Two Hundred Fifty Thousand options vested upon issuance and the balance vest sixty days thereafter. The grant provides for an exercise price of \$0.014 per share and expire on May 13, 2015.

**Table of Equity Compensation**

The following table sets forth summary information, as of September 30, 2013, concerning securities authorized for issuance under all equity compensation plans and agreements for the fiscal years ended September 30, 2013, and 2012 is as follows:

|                                       |                   |
|---------------------------------------|-------------------|
| Risk free interest rate               | 0.29% - 0.38%     |
| Stock volatility factor               | 138.33% - 169.56% |
| Weighted average expected option life | 2 - 3 years       |
| Expected dividend yield               | None              |

A summary of the Company's stock option activity and related information follows:

|  | 9/30/2013         |                                       | 9/30/2012         |                                 |
|--|-------------------|---------------------------------------|-------------------|---------------------------------|
|  | Number of Options | Weighted average exercise price<br>\$ | Number of Options | Weighted average exercise price |
| Outstanding, beginning of period                                 | 8,000,000         | 0.210                                 | 21,180,000        | 0.210                           |
| Granted  | 4,500,000         | 0.014                                 | 1,500,000         | 0.045                           |
| Exercised  | -                 | -                                     | -                 | -                               |
| Expired  | (3,000,000)       | 0.360                                 | (14,680,000)      | 0.014                           |
|  | \$                |                                       | \$                |                                 |
| Outstanding, end of the period                                   | 9,500,000         | 0.066                                 | 8,000,000         | 0.210                           |
|  | \$                |                                       | \$                |                                 |
| Exercisable at the end of the period                             | 8,500,000         | 0.043                                 | 6,500,000         | 0.270                           |
|  | \$                |                                       | \$                |                                 |
| Weighted average fair value of options granted during the period |                   | 0.014                                 |                   | 0.045                           |

The weighted average remaining contractual life of options outstanding issued under the Plan as of September 30, 2013 was as follows:

| Exercisable Prices<br>\$ | Stock Options Outstanding | Stock Options Exercisable | Weighted Average Remaining Contractual Life (Years) |
|--------------------------|---------------------------|---------------------------|---|
| 0.160                    | 2,500,000                 | 2,500,000                 | 0.50 years  |
| \$                       |                           |                           |   |
| 0.014                    | 500,000                   | 500,000                   | 1.62 years  |
| \$                       |                           |                           |   |
| 0.100                    | 1,000,000                 | -                         | 2.05 years  |
| \$                       |                           |                           |   |
| 0.014                    | 4,000,000                 | 4,000,000                 | 2.47 years  |
| \$                       | 1,500,000                 | 1,500,000                 | 3.28 years  |

0.045

9,500,000

8,500,000

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the financial statements of operations during the year ended September 30, 2013, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of September 30, 2013 based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to September 30, 2013, based on the grant date fair value estimated. We account for forfeitures as they occur. The stock-based compensation expense recognized in the statement of operations during the years ended September 30, 2013 and 2012 was \$46,787 and \$129,834, respectively.

**Recent Sales of Securities (Unregistered)**

During the period of October 1, 2012 through September 30, 2013, the Company made the following unregistered issuances of securities:

In June 2013, the Company authorized the issuance of 5,000 shares of Series A Preferred Stock (the Shares ) to the Company's Chief Executive Officer and Director, Tom M. Djokovich.

The Company issued 16,866,460 shares of common stock at prices ranging from \$0.0085 to \$0.0073 upon conversion of the aggregate amount of \$134,448 dollars of principal and accrued interest to the holder of 12% convertible note.

The Company issued 50,869,850 shares of common stock at prices ranging from \$0.0162 to \$0.0024 upon conversion of the aggregate amount of \$307,320 dollars of principal and accrued interest to the holder of 8% convertible notes.

The Company issued 27,706,793 shares of common stock at prices ranging from \$0.0048 to \$0.0024 upon conversion of the aggregate amount of \$91,667 dollars of principal, interest, and original issue discount fees by the holder of a 10% convertible.



The Company issued 4,375,000 shares of common stock at the price of \$0.006 to the holder of a 10% convertible note upon conversion by the holder of \$26,250 dollars of principal and accrued interest thereunder.

The Company issued 3,908,171 shares of the Company's restricted common stock to a service provider for services at fair value of \$26,200.

The Company has issued a total of 43,584,017 Final Adjustment Shares of the Company's common stock to Ironridge Global IV, Ltd. with a fair value of \$828,790 in settlement of the *bona fide* accounts payable of the Company, which had been purchased by Ironridge from certain creditors of the Company, in an amount equal to approximately \$494,561 in accounts payable and \$54,317 for agent and attorney fees associated with the transaction.

Unless noted otherwise, all of the above issuances by the Company of its unregistered securities were made by the Company in reliance upon Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"). All purchasers were provided access to all material information, which they requested, and all information necessary to verify such information and were afforded access to management of the Company in connection with their purchases. All purchasers of the unregistered securities acquired such securities for investment and not with a view toward distribution, acknowledging such intent to the Company. All certificates or agreements representing such securities that were issued contained restrictive legends, prohibiting further transfer of the certificates or agreements representing such securities, without such securities either being first registered or otherwise exempt from registration in any further resale or disposition.

#### **Item 6. Selected Financial Data**

N/A

#### **Item 7. Management's Discussion and Analysis or Plan of Operations**

#### **Cautionary and Forward-Looking Statements**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. In addition to historical consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions as described under the Cautionary Note Regarding Forward-Looking Statements that appears earlier in this Annual Report on Form 10-K. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under Item 1A: Risk Factors and elsewhere in this Annual Report on Form 10-K.*

The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q and Annual Report on Form 10-K filed and any Current Reports on Form 8-K filed by the Company.

## **Business Overview**

XsunX, Inc. focuses on providing solar energy solutions that provide the greatest bottom-line financial benefits to businesses. Our background and experience spans virtually all aspects of solar including technology assessment, design, and development.

Our business development efforts have to date centered on the development and marketing of a licensable low cost entry point solution for the manufacture of Copper Indium Gallium Selenide (CIGS) thin film solar cells which we call CIGSolar®.

During the fiscal year ended September 30, 2013, we completed the assembly of a thin film solar cell co-evaporation system central to the design of our CIGSolar® technology, and worked to calibrate the system, make adjustments to its new design as testing results warranted, and marketed the benefits of the technology to potential licensees which, during the period, consisted primarily of companies working to establish vertically integrated solar module manufacturing operations to service emerging demand in developing economies and regions.

In September 2013, in response to what the Company foresees as increasing demand for solar electric PV systems within the commercial real-estate markets in California, we began to diversify our operations to operate as a licensed contractor in California in order to not only sell and design but also manage the installation of solar electric PV systems. At this time we do not plan to manufacture CIGS solar modules for use in the solar PV systems that we market and install. The current configuration of our CIGSolar® evaporation systems have been established for marketing demonstration and development purposes, which is consistent with our licensing sales model for this technology.





Initially, we plan to complete the preparation for the sale and delivery of solar PV system design and installation services in the first quarter of fiscal 2014, and begin to market to commercial and industrial business and facility owners in the California market.

We see this as a significant business development opportunity as management has the skillset associated with construction management, the licensing qualifications necessary for us to qualify as a licensed contractor in California, we have extensive experience associated with PV technologies and the design requirements associated with the delivery of a solar PV system, and there is a market demand available for us to provide these services to.

We plan to focus a large portion of operations on the rapid development and market acceptance for our solar electric PV systems design and installation services. We believe that these efforts may provide us with the fastest path to revenue generation and the ability to reduce future dependency on the sale of debt or equity to fund operations.

### **Plan of Operations**

During the fiscal year ending September 30, 2014, the Company has developed a plan of operations that diversifies operations to include the sale, design, and installation of solar PV systems for commercial and industrial real-estate applications as a licensed contractor in California. We intend to continue to market our multi-chamber CIGSolar® thermal co-evaporation technology and system to third parties, but we do not anticipate devoting substantial resources towards additional testing, calibration, or enhancements to the system until such time that we either enter into a sales agreement for the technology or the market demand for thin film technologies warrants additional investments. Further, at this time we do not plan to manufacture CIGS solar modules for use in the solar PV systems that we market and install. The current configuration of our CIGSolar® evaporation systems have been established for marketing demonstration and development purposes only which is consistent with our licensing sales model for this technology.

The purpose of our business diversification efforts are to capitalize on the increasing demand within the California commercial real-estate markets for the installation of solar electric PV systems. The improving demand stems from the significant reductions to the per-watt sales price for silicon solar modules which has resulted in the general overall reductions to the installed cost-per-watt for solar PV systems. These reductions, coupled with government tax and investment incentives, can provide significant investment incentives for consumers whom we plan to market to in efforts to make sales.

Under this diversified operating plan we anticipate operating costs associated with the further development of our CIGSolar® technology to reduce while sales and marketing efforts, and the use of third party sub-contractors, will increase as we work to develop a brand recognition for our solar PV design and installations services, and employ licensed technicians to assist with solar PV systems installations.

Our Plan of Operations, based upon the aforementioned activities, requires \$465,000 for general and administrative activities, \$240,000 to support increased sales and marketing efforts, and \$450,000 to support cash flow requirements associated with the planning, installation, and material and labor finance costs associated with solar PV system installations. However the cash flow requirements associated with the completion of these efforts, and the transition to revenue recognition may continue to exceed cash generated from operations in the current and future periods. If we are unable to complete a sale or licensure of our CIGSolar® technology or develop sufficient solar PV systems installation sales or profitability through solar PV systems sales and transition to revenue recognition prior to completion of this plan we will need to obtain additional financing from other sources or adjust the timing of our plans. However, we have been able to raise capital in a series of equity and debt offerings in the past. While there can be no assurances that we will be able to obtain additional financing, on terms acceptable to us and at the times required, or at all, we believe that sufficient capital can be raised in the foreseeable future as necessary.

The Company may change any or all of the budget categories in the execution of its business attempts. None of the items is to be considered fixed or unchangeable.

Management believes the summary data and audit presented herein is a fair presentation of the Company's results of operations for the periods presented. Due to the Company's expansion of primary business focus and new business opportunities associated with the sales and installations of solar PV systems these historical results may not necessarily be indicative of results to be expected for any future period. As such, future results of the Company may differ significantly from previous periods.

#### Other Information

Effective October 30, 2013, as a result of the sale by the property owner of the Irvine, California shop facility, the Company vacated the Irvine, CA shop facilities where it had been conducting assembly, testing, and marketing of its CIGSolar thin film co-evaporation technologies. The Company elected to relocate the system to a facility in La Mirada California where the system could continue to be shown to interested buyers of the system and processing technology.

After approval by the Board of Directors for the expansion of business operation the Company announced the addition of solar PV system sales, design, and installation services to its business development efforts on October 16, 2013. The Company's CEO and President, Mr. Tom Djokovich, as a licensed contractor in California since 1979 provided the Company with qualification for a California B-1 contractor's license, effective October 14, 2013, to allow the Company to promote and enter into agreements with customers interested in these new business services.

On November 1, 2013 the Company and Mr. Joseph Grimes, agreed that he would no longer provide services to the Company as executive sales manager, and agreed to retain Mr. Grimes as a business development consultant, under his company, Solar Utility Networks, LLC, ( SUN ) assisting the Company in its efforts to expand services to include the sales, design, and installation of solar PV systems. The services to be provided include the development of project leads, project financial analysis, conceptual project layouts and project locations, estimates for Government-based incentives, sourcing of system components, and assistance in procuring project financing. The Company has agreed to pay a commission of up to 6% on projects we enter into sales agreements that were the result of leads developed by and introduced to us by SUN. Mr. Grimes is also a Director for the Company and Mr. Grimes has agreed to act in the best interests of the Company under the agreement to provide the Company with the benefit of customer development and introduction by Mr. Grimes for the mutual benefit of both parties.

#### Change of Control

On June 27, 2013, the Company amended its Articles of Incorporation for the creation of its Series A Preferred Stock designating 10,000 shares of its authorized Preferred Stock as Series A Preferred Stock. The Series A Preferred Shares have a par value of \$0.01 per share. The Series A Preferred Shares do not have a dividend rate and are not redeemable. In addition, the Series A Preferred Shares rank senior to the Company's common stock. The Series A Preferred Shares have voting rights equal to that of the common stockholders and may vote on any matter that common shareholders may vote. One or more shares of Series A Preferred Stock has the voting equivalent of not less than 60% of the issued and outstanding common stock (representing a super majority voting power) of the vote required to approve any action, in which the shareholders of the Company's common stock may vote. In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the Holders of shares of Series A Preferred Stock shall be entitled to receive, immediately after any distributions to Senior Securities required by the Company's Certificate of Incorporation or any certificate of designation, and prior in preference to any distribution to Junior Securities but in parity with any distribution to Parity Securities, an amount per share equal to \$.01 per share. Holders of shares of Series A Preferred Stock shall not be entitled to any dividends, and the Company has no redemption rights for Series A Preferred Stock issued.

On June 27, 2013, the Board of Directors of the Company authorized the issuance of 5,000 shares of Series A Preferred Stock (the Shares ) to the Company's Chief Executive Officer and Director, Tom M. Djokovich. The Shares were issued in consideration for the contribution of services by Mr. Djokovich to the Company valued at fifty dollars, which the Board deemed full and fair consideration. As a result of such issuance, Mr. Djokovich has the ability to influence and determine stockholder votes.

On June 27, 2013 our Board of Directors approved an amendment to our Articles of Incorporation (the Amendment ) to increase our authorized shares of Common Stock from 500,000,000 shares to 2,000,000,000 shares. Our majority stockholder, Mr. Djokovich submitted a written consent approving such amendment to the Article of Incorporation in lieu of a special meeting to the shareholders on June 28, 2013, to be effective upon the filing of an amendment to our Articles of Incorporation with the Secretary of State of Colorado. The Amendment became effective upon the filing of the amendment to our Articles of Incorporation with the Secretary of State of the State of Colorado on August 15, 2013. As of September 30, 2013, Mr. Djokovich held 14,493,000 shares of the Company's common stock and 5,000 shares of the Company's Series A Preferred stock representing the voting equivalent of 263,223,265 shares of common stock or approximately 61.35% of the Company's voting stock. The remaining outstanding shares of common stock are held by approximately 16,000 other shareholders.

**Results of Operations for the Fiscal Year Ended September 30, 2013 Compared to Fiscal Year Ended September 30, 2012.**

*Revenue and Cost of Sales:*

The Company generated no revenues in the fiscal years ended September 30, 2013, and 2012. There were no associated costs of goods sold in any of the fiscal periods represented above. The Company to date has had minimal revenue and cost of sales, and is still in the development stage.

*Selling, General and Administrative Expenses:*

Selling, General and Administrative (SG&A) expenses decreased by \$112,922 during the fiscal year ended September 30, 2013 to \$532,624 as compared to \$645,546 for the fiscal year ended September 30, 2012. The decrease in SG&A expenses was related primarily to a general reduction to salaries, consulting, and operating expenses under the Company's re-focused plan of operations in the 2013 period for the assembly, testing, and marketing of the Company's CIGSolar® thin film solar manufacturing technology. We anticipate operating costs associated with the further development of our CIGSolar® technology to be reduced in future periods while sales and marketing efforts, and the use of third party sub-contractors, will increase SG&A expenditures in the future as we work to develop a brand recognition for our solar PV design and installations services, and employ licensed technicians to assist with solar PV systems installations.

*Research and Development:*

Research and development increased by \$302,698 during the fiscal year ended September 30, 2013 to \$425,371 as compared to \$122,673 for the fiscal year ended September 30, 2012. The increase was primarily due to an increase in research equipment related to the development of our new thin film solar manufacturing technology CIGSolar®. During the fiscal year while reducing direct research development costs we focused resources on the assembly and customization of a specialized multi-chamber processing tool that incorporates our patent pending technology to provide a manufacturing system to produce CIGS solar cells. We do not anticipate devoting substantial resources towards R&D expense associated with additional testing, calibration, or enhancements to the system until such time that we either enter into a sales agreement for the technology or the market demand for thin film technologies warrants additional investments.

*Net Loss:*

For the fiscal year ended September 30, 2013, our net loss was \$(2,522,382) as compared to a net loss of \$(1,555,194) for the fiscal year ended September 30, 2012. The increase in net loss of \$(967,188) primarily stems from a loss on settlement of debt, financing cost, amortization of debt discount, and gain on change in derivative liability in the current period. This debt was primarily attributed to the costs associated with the assembly of our multi-chamber CIGSolar processing system. The Company anticipates the trend of losses to continue in future periods until the Company can recognize sales of significance of which there is no assurance.

**Liquidity and Capital Resources**

We had a working capital deficit at September 30, 2013 of \$(889,448), as compared to a working capital deficit of \$(544,939) as of September 30, 2012. The increase of \$(344,509) in working capital deficit was the result of an increase in accounts payable, derivative liability, and convertible notes, with a decrease in cash, prepaid expenses, and accrued expenses. There was no revenue producing activities for the fiscal year ended September 30, 2013.

Cash flow used by operating activities was \$441,718 for the fiscal year ended September 30, 2013, as compared to cash flow used by operating activities of \$379,240 for the fiscal year ended September 30, 2012. The increase in cash flow used of \$62,478 by operating activities was primarily due to a net change in non-cash expenses, accounts payable, accrued expenses and prepaid expenses.

Cash flow used by investing activities was \$24,736 for the fiscal year ended September 30, 2013, as compared to cash flow used in investing activities of \$3,309 during the fiscal year ended September 30, 2012. The net change in investing activities was primarily due to proceeds received of \$8,000 from the sale of certain assets, offset by the purchase of fixed assets of \$32,736, compared to the purchase of research equipment in the prior fiscal year in the amount of \$3,309.

Cash flow provided by financing activities was \$460,500 for the fiscal year ended September 30, 2013, as compared to cash provided by financing activities of \$360,500 during the fiscal year ended September 30, 2012. The increase in cash flow provided by financing activities was the result of an increase in cash provided through equity financing. Our capital needs have primarily been met from the proceeds of private placements, and the sale of convertible notes as we are currently in the development stage and had no revenues.

The Company is currently engaged in efforts to diversify operations to include the sale, design, and installation of solar PV systems for commercial and industrial real-estate applications as a licensed contractor in California. We intend to continue to market our multi-chamber CIGSolar® thermal co-evaporation technology and system to third parties, but we do not anticipate devoting substantial resources towards additional enhancements to the system until such time that we either enter into a sales agreement for the technology or the market demand for thin film technologies warrants additional investments.

For the fiscal year ending September 30, 2013, the Company has developed a plan of operations that requires \$465,000 for general and administrative activities, \$240,000 to support increased sales and marketing efforts, and \$450,000 to support cash flow requirements associated with the planning, installation, and material and labor finance costs associated with solar PV system installations. However the cash flow requirements associated with the completion of these efforts, and the transition to revenue recognition may continue to exceed cash generated from operations in the current and future periods. If we are unable to complete a sale or licensure of our CIGSolar® technology or develop sufficient solar PV systems installation sales or profitability through solar PV systems sales and transition to revenue recognition prior to completion of this plan we will need to obtain additional financing from other sources or adjust the timing of our plans. However, we have been able to raise capital in a series of equity and debt offerings in the past. While there can be no assurances that we will be able to obtain additional financing, on terms acceptable to us and at the times required, or at all, we believe that sufficient capital can be raised in the foreseeable future as necessary.

### **Off-Balance Sheet Arrangements**

We do not have any relationships with unconsolidated entities or financial partnerships such as entities often referred to as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance-sheet arrangements or for other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

### **Significant Accounting Policies**

#### Development Stage Activities and Operations

The Company has been in its initial stages of formation and for the year ended September 30, 2013, had no revenues. A development stage activity is one in which all efforts are devoted substantially to establishing a new business and even if planned principal operations have commenced, revenues are insignificant.

#### Property and Equipment

Property and equipment are stated at cost, and are depreciated using straight line over its estimated useful lives:

|                                 |                     |
|---------------------------------|---------------------|
| Leasehold improvements          | Length of the lease |
| Computer software and equipment | 3 Years             |

|                       |         |
|-----------------------|---------|
| Furniture & fixtures  | 5 Years |
| Machinery & equipment | 5 Years |

The Company capitalizes property and equipment over \$500. Property and equipment under \$500 are expensed in the year purchased. The depreciation expense for the years ended September 30, 2013, and 2012, were \$34,937 and \$41,706, respectively.

#### Revenue Recognition

The Company recognizes revenue when services are performed, and at the time of shipment of products, provided that evidence of an arrangement exists, title and risk of loss have passed to the customer, fees are fixed or determinable, and collection of the related receivable is reasonably assured. To date the Company has had minimal revenue and is still in the development stage.

#### Research and Development

Research and development costs are expensed as incurred. Total research and development costs were \$425,371 and \$122,673 for the years ended September 30, 2013, and 2012, respectively.

#### Stock-Based Compensation

Share-based Payment applies to transactions in which an entity exchanges its equity instruments for goods or services and also applies to liabilities an entity may incur for goods or services that are to follow a fair value of those equity instruments. We are required to follow a fair value approach using an option-pricing model, such as the Black Scholes option valuation model, at the date of a stock option grant. The deferred compensation calculated under the fair value method would then be amortized over the respective vesting period of the stock option. This has not had a material impact on our results of operations.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Our products will be quoted for sale and licensure in United States dollars and as our business development efforts progress we anticipate the sale and/or licensure of our products to foreign entities. To the extent that we may be exposed to foreign currency risks related to the rise and/or fall of foreign currencies against the U.S. dollar we will report in United States dollars.





## **Item 8. Financial Statements and Supplementary Data**

All financial information required by this Item is attached hereto at the end of this report beginning on page F-1 and is hereby incorporated by reference.

## **Item 9. Changes in and Disagreements on Accounting and Financial Disclosure**

None

## **Item 9A. Controls and Procedures**

### **Disclosure Controls and Procedures**

Our Chief Executive Officer has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. The evaluation included certain control areas in which we have made, and are continuing to make, changes to improve and enhance controls. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Based on such evaluation, our Chief Executive Officer has concluded that, as of the end of such period, our disclosure controls and procedures were effective, and we have discovered no material weakness.

### **Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control structure and procedures over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) under the Exchange Act. The SEC rule making for the Sarbanes-Oxley Act of 2002 Section 404 requires that a company's internal controls over financial reporting be based upon a recognized internal control framework. Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2013 based on the framework set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) that has been modified to more appropriately reflect the current limited operational scope of the Company as

a Development Stage company. The Company used the COSO guide - The Internal Control over Financial Reporting - Guidance for Smaller Public Companies to implement the Company's internal control framework. Additionally, the limited scope of operations of the Company means that traditional separation of duties controls are not used by the Company as a result of the limited staffing within the Company. The Company relies on alternative procedures to overcome this non-material control weakness.

During the Company's fiscal year ended September 30, 2013, management continued to assess the Company's internal and controls procedure documents basing any need for revision upon additional guidance for implementing the model framework created by COSO as is appropriate to our operations and operations of smaller public entities. This framework is entitled Internal Control-Integrated Framework. The COSO Framework, which is the common shortened title, was published in 1992 and has been updated, and we believe will satisfy the SEC requirements of Section 404 of the Sarbanes-Oxley Act of 2002. As the Company expands operations, additional staff will be added to implement separation of duties controls as well.

Based on that evaluation, our Chief Executive Officer concluded that our internal control over financial reporting as of September 30, 2013 was effective. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Changes in Internal Control over Financial Reporting**

Except as noted above, there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Auditors Report on Internal Control over Financial Reporting**

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

### **Item 9B. Other Information**

On December 10, 2013, the holder of 10% unsecured convertible promissory note, issued by the Company on December 14, 2012, with an accrued principal, interest, and original issue discount balance of \$91,667 elected to advance \$40,000 to the Company. Any funds advanced under the note mature one year from payment to the Company and may be converted by the Lender into shares of common stock of the Company, subject to securities compliance, at the lesser of \$.025 per share or sixty percent (60%) of the lowest trade price in the twenty five (25) trading days prior to the conversion. On December 18, 2013, and January 13, 2014, the Company issued 3,500,000 and 2,500,000 shares of common stock, respectively, to the holder upon conversion of an aggregate principal sum of \$32,000 under the terms of the convertible 10% note. The shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act.

**PART III****Item 10. Directors, Executive Officers, and Corporate Governance**

The following table lists the executive offices and directors of the Company during the fiscal year ended September 30, 2013:

| <b>Name</b>       | <b>Age</b> | <b>Position Held</b>  | <b>Tenure</b>   |
|-------------------|------------|---|---|
| Tom Djokovich (2) | 56         | CEO, Director, Secretary, and acting Principal Accounting Officer | CEO and Director since October 2003, Secretary & PAO since September 2009 |
| Joseph Grimes (1) | 56         | Director, President, and COO                                      | Director Since August 2008  |
| Thomas Anderson   | 48         | Director  | Since August 2001   |
| Oz Fundingsland   | 70         | Director  | Since November 2007   |
| Michael Russak    | 66         | Director  | Since November 2007   |

The above listed directors will serve until the next annual meeting of the stockholders or until their death, resignation, retirement, removal, or disqualification, and until their successors have been duly elected and qualified. Vacancies in the existing Board of Directors are filled by majority vote of the remaining Directors. There are no agreements or understandings for any officer or director to resign at the request of another person and no officer or director is acting on behalf of or will act at the direction of any other person. There is no family relationship between any of our directors.

The directors of the Company will devote such time to the Company's affairs on an "as needed" basis, but typically less than 20 hours per month. As a result, the actual amount of time which they will devote to the Company's affairs is unknown and is likely to vary substantially from month to month.

- (1) Effective January 9, 2013, as part of a continued efforts to maximize the use of capital resources through reductions to operating costs and functions that are redundant, the Company elected to consolidate its executive management operations which eliminated the need to have multiple officers performing similar functions. In furtherance of these efforts the Company's Board of Directors accepted the resignation of Joseph Grimes as the Company's President and Chief Operating Officer. Mr. Grimes continues to serve as a member of the Board of Directors and assumed the position of executive sales manager. Mr. Grimes did not enter into, or receive, any grant or award under any material plan, contract or arrangement in connection with his assumption of duties as the Company's executive sales manager. Mr. Grimes is 56 years old.

- (2) Effective January 9, 2013, in connection with the resignation of Mr. Grimes, the Board appointed Mr. Tom Djokovich to the position of President. Mr. Djokovich will continue to also serve as the Company's Chief Executive Officer (CEO), a Director, and Secretary duties which he has performed since October 2003. Mr. Djokovich did not enter into, or receive, any grant or award under any material plan, contract or arrangement in connection with his assumption of duties as the Company's President. Mr. Djokovich is 56 years old.

## **Biographical Information**

*Mr. Tom Djokovich, age 56, Chief Executive Officer and a Director as of October 2003, acting Principal Accounting Officer as of September 2009, and President as of January 9, 2013;*

Mr. Djokovich was the founder and served from 1995 to 2002 as the Chief Executive Officer of Accesspoint Corporation, a vertically integrated provider of electronic transaction processing and e-business solutions for merchants. Under Mr. Djokovich's guidance, Accesspoint became a member of the Visa/MasterCard association, the national check processing association NACHA, and developed one of the payment industry's most diverse set of network based transaction processing, business management and CRM systems for both Internet and conventional points of sale. Prior to Accesspoint, Mr. Djokovich founded TMD Construction and Development in 1979. TMD provided management for multimillion-dollar projects incorporating at times hundreds of employees, subcontractors and international material acquisitions for commercial, industrial and custom residential construction services as a licensed building and development firm in California. In 1995 Mr. Djokovich developed an early Internet based business-to-business ordering system for the construction industry.

***Mr. Joseph Grimes, age 56, Chief Operating Officer as of April 2006 through January 9, 2013, a Director as of August 2008, and President as of March 2009 through January 9, 2013;***

Mr. Grimes brings to XsunX more than eight years direct experience in thin-film technology and manufacturing. He was most recently Vice President, Defense Solutions, for Envisage Technology Company, where he directed and managed the defense group business development process, acquisition strategies and vision for next generation applications from October 2005 to March 2006. Previously he was Co-Founder, President and CEO of ISERA Group, where he established the company infrastructure and guided five development teams, finally selling the company to Envisage from 1993 to 2005. His direct experience in thin-film technology came with Applied Magnetics Corporation from 1985 to 1993 as manager for thin-film prototype assembly. Mr. Grimes holds a Bachelor's degree in business economics and environmental studies, and a Master's in computer modeling and operation research applications, both from the University of California at Santa Barbara.

### **Independent Directors**

***Mr. Thomas Anderson, age 48, became a director of the Company in August 2001;***

Prior to co-founding PE/Q Energy, Tom served through October 2012 as Chief Operating and Development Officer for American Capital Energy, a large-scale commercial and small-scale utility solar PV developer and installer. While at ACE, he guided the development, installation, operation and maintenance of large-scale commercial and small utility rooftop and ground mount projects ranging in size from 200 kW to 6.16 MW; negotiated and secured dozens of MW of Power Purchase Agreements with both commercial and utility clients; and served as project development lead for a fully developed 20 MW utility-PPA project to be constructed in 2014. He has served as Managing Director of the Environmental Science and Engineering Directorate of Qinetiq North America in Los Alamos, New Mexico. He was with Qinetiq North America, formerly Apogen Technologies, from January, 2005, through September, 2008. Mr. Anderson worked for 19 years in the environmental consulting field, providing consulting services in the areas of environmental compliance, characterization and remediation services to Department of Energy, Department of Defense, and industrial clients. He formerly worked as a Senior Environmental Scientist at Concurrent Technologies Corp. from November 2000 to December 2004. He earned his B.S. in Geology from Denison University and his M.S. in Environmental Science and Engineering from Colorado School of Mines.

***Mr. Oz Fundingsland as Director, age 70, became a director of the Company in November 2007;***

On November 12, 2007, the Company announced the appointment of Mr. Oz Fundingsland as Director, effective November 12, 2007. Mr. Fundingsland brings over forty years of sales, marketing, executive business management, finance, and corporate governance experience to XsunX. His professional and business experience principally originated with his tenure, commencing in 1964, at Applied Magnetics Corp., a disk drive and data storage company.

Prior to his retirement from Applied Magnetics in 1994, Mr. Fundingsland served as an Executive Officer and Vice President of Sales and Marketing for 11 years directing sales growth from \$50 million to over \$550 million. Commencing in 1993 through 2003 Mr. Fundingsland served as a member of the board of directors for the International Disk Drive Equipment Manufacturers Association IDEMA where he retired emeritus. Mr. Fundingsland has provided consulting services assisting with sales, marketing, and management to a host of companies within the disk drive, optical, software, and LED industries.

***Dr. Michael A. Russak as Director, age 66, became a director of the Company in November 2007;***

On November 28, 2007, the Company announced the appointment of Dr. Michael A. Russak as a Director, effective November 26, 2007. Dr. Russak is also a member of the Company's Scientific Advisory Board. Dr. Michael A. Russak currently holds the position of Executive Vice President of Business Development with Intevac, Inc. in Santa Clara, CA. He has been working as a consultant in the hard disk drive and photovoltaic industries since Jan 2007. From 2001 to 2006 he was President and Chief Technical Officer of Komag, Inc., a manufacturer of hard magnetic recording disks for hard disk drive applications. From 1993 to 2001 he was Chief Technical Officer of HMT Technology, Inc. also a manufacturer of magnetic recording disks. From 1985 to 1993 he was a research staff member and program manager in the Research Division of the IBM Corporation. Dr. Russak has over thirty five years of industrial experience progressing from a research scientist to senior executive officer of two public companies. He has expertise in thin film materials and devices for magnetic recording, photovoltaic, solar thermal applications, semiconductor devices as well as glass, glass-ceramic and ceramic materials. He also has over twelve years experience at the executive management level of public companies with significant off shore development and manufacturing functions. He received his B.S. in Ceramic Engineering in 1968 and Ph.D. in Materials Science in 1971, both from Rutgers University in New Brunswick, NJ. During his career, he has been a contributing scientist and program manager at the Grumman Aerospace Corporation, a Research Staff Member and technical manager in the areas of thin film materials and processes at the Research Division of the IBM Corporation at the T.J. Watson Research Laboratories. In 1993, he joined HMT Technology, a manufacturer of thin film disks for magnetic storage, as Vice President of Research and Development. His responsibilities included new product design and introduction. Dr. Russak became Chief Technical Officer of HMT and held that position until 2000 when HMT merged with Komag Inc. Dr. Russak was appointed President and Chief Technical Officer of the combined company. He continued to set technical, operational and business direction for Komag until his retirement at the end of 2006. He has published over 90 technical papers, and holds 23 U.S. patents.



### **Involvement in Certain Legal Proceedings**

None of the members of the Board of Directors or other executives has been involved in any bankruptcy proceedings, criminal proceedings, any proceeding involving any possibility of enjoining or suspending members of our Board of Directors or other executives from engaging in any business, securities or banking activities, and have not been found to have violated, nor been accused of having violated, any federal or state securities or commodities laws.

### **Board Committees; Audit Committee**

As of September 30, 2013, the Company's board was comprised of five directors, four of which are considered independent directors and the Company did not have an audit committee. Further, none of the members of the board of directors is qualified as a financial expert. We are a development stage company with limited resources and we are actively seeking a qualified financial expert for addition to the board. The board of directors will appoint committees as necessary, including an audit committee as resources permit. In the meantime, the Board serves as the Company's audit committee utilizing business judgment rules and good faith efforts.

### **Section 16(A) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company's officers and directors, and certain persons who own more than 10% of a registered class of the Company's equity securities (collectively, "Reporting Persons"), to file reports of ownership and changes in ownership ("Section 16 Reports") with the SEC. Reporting Persons are required by the SEC to furnish the Company with copies of all Section 16 Reports they file. Based on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that, during the fiscal year ended September 30, 2013, all filing requirements applicable to its officers, directors, and greater than ten-percent beneficial owners were complied with the exception that one report, covering an one transaction was not timely filed by the chief executive officer with the SEC via year-end report on Form 5.

### **Code of Ethics**

The Company's board of directors adopted a Code of Ethics policy on January 7, 2008.

### **Item 11. Executive Compensation**

## Overview

We are a development stage Company and we rely on our board of directors to evaluate compensation and incentive offerings made by the Company as it applies to our executive officers, and efforts to attract and maintain qualified staff. To date, our compensation policy has been conducted on a case by case basis with input from our chief executive officer, and focused on the following four primary areas; (a) first the Company's commitment capabilities within the scope of objectives and capital capabilities, (b) salary compensatory with peer group companies and peer position, (c) cash bonuses tied to sales and revenue attainment, and (d) long term equity compensation tied to strategic objectives of establishing marketable solar technologies.

In the year ended September 30, 2013 the Company's named executive officers continued to accept reductions to compensation to that had originated in October 2011 to allow for the re-direction of available capital resources for use in the purchase and assembly of the Company's multi-chamber CIGSolar® thermal co-evaporation system. As a result, initially salaries were reduced effective October 1, 2011 to \$120,000 each annually. Then effective January 1, 2012 compensation was further reduced and/or contributed to allow further re-direction of available capital resources towards system assembly efforts. Since January 2012, wages have been paid as capital resources have allowed, and as work efforts have been extended to complete the strategic objectives and business development efforts of the Company.

In this Compensation Discussion and Analysis, the individuals in the Summary Compensation Table set forth below are referred to as the named executive officers. Generally, the types of compensation and benefits provided to the named executive officers may be similar to what we intend to provide to future executive officers.

**Executive Compensation**

The following table sets forth information with respect to compensation earned by our chief executive officer, our chief operating officer (collectively, our named executive officers ) for the fiscal years ended September 30, 2013, and 2012 respectively.

**Summary Compensation Table**

| Name and Principal Position | Year | Salary (\$) | Contributed Services (\$) | Stock Option Awards |            |             | All Other Compensation (\$) | Total (\$) |
|-----------------------------|------|-------------|---------------------------|---------------------|------------|-------------|-----------------------------|------------|
|                             |      |             |                           | Bonus (\$)          | Award (\$) | Awards (\$) |                             |            |
|                             |      |             | 0                         |                     |            |             | 649                         | 124,879    |
| Tom Djokovich, CEO(1)       | 2013 | 124,200     | 37,035                    | 0                   | 0          | 0           | 4,303                       | 126,855    |
|                             | 2012 | 85,215      | 0                         | 0                   | 0          | 0           | 3,002                       | 31,787     |
| Joe Grimes, COO(2)          | 2013 | 18,000      | 30,000                    | 0                   | 0          | 10,785      | 10,948                      | 83,256     |
|                             | 2012 | 42,308      |                           | 0                   | 0          | 0           |                             |            |

- (1) In addition to Mr. Djokovich's compensation the Company provided Mr. Djokovich with payments totaling \$649 for health insurance premiums while Mr. Djokovich was part of the Company's health insurance.
- (2) In addition to Mr. Grimes compensation the Company provided Mr. Grimes with payments totaling \$3,002 for health insurance premiums while Mr. Grimes was part of the Company's health insurance program.

No other compensation not described above was paid or distributed during the listed fiscal years to the executive officers of the Company.

**Grants of Plan-Based Awards Table**

The following table sets forth summary information regarding all grants of plan-based awards made to our named executive officers during the two years ended September 30, 2013, and 2012 respectively.

|                                 | <b>All Other</b>  |                   |                    |                      |
|---------------------------------|-------------------|-------------------|--------------------|----------------------|
|                                 | <b>Option</b>     |                   |                    |                      |
| <b>Awards:</b>                  |                   |                   |                    |                      |
| <b>Name</b>                     | <b>Grant Date</b> | <b>Number of</b>  | <b>Exercise or</b> | <b>Grant Date</b>    |
|                                 |                   | <b>Securities</b> | <b>Base Price</b>  | <b>Fair Value of</b> |
|                                 |                   | <b>Underlying</b> | <b>of Option</b>   | <b>Stock and</b>     |
|                                 |                   | <b>Options</b>    | <b>Awards</b>      | <b>Option Awards</b> |
|                                 | <b>Grant</b>      |                   |                    |                      |
|                                 | <b>Date</b>       | <b>(#)</b>        | <b>(\$/Sh)</b>     | <b>(\$)</b>          |
| Tom Djokovich, CEO              | 2013              | 0                 | 0                  | 0                    |
|                                 | 2012              | 0                 | 0                  | 0                    |
| Joe Grimes, President & COO (1) | 2013              | 1,000,000         | \$0.014            | 10,785               |
|                                 | 2012              | 0                 | 0                  | 0                    |

- (1) Effective January 9, 2013, the Company's Board of Directors accepted the resignation of Joseph Grimes as the Company's President and Chief Operating Officer. Mr. Grimes continues to serve as a member of the Board of Directors.

**Outstanding Equity Awards at Fiscal Year End Table**

The following table sets forth the outstanding equity awards with respect our named executive officers for the fiscal year ended September 30, 2013

| Name                  | OPTION AWARDS   |   |   |            |                        | STOCK AWARDS  |  |   |  |
|-----------------------|---|---|---|------------|------------------------|---|--|---|--|
|                       | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercisable Options (#) | Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
| Tom Djokovich,<br>CEO |   |   |   |            |                        |   |  |   |  |
| Joseph Grimes,<br>COO | 2,500,000   | 0   | 2,500,000   | \$ 0.16    | 04/01/2014             |   |  |   |  |
|                       | 0   | 1,000,000   | 1,000,000   | \$ 0.10    | 10/18/2015             |   |  |   |  |
|                       | 1,000,000   | 0   | 1,000,000   | \$ 0.014   | 03/21/2015             |   |  |   |  |

**Option Exercises**

None

**Pension Benefits**

None

**Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans**

None

**Employment Agreements and Arrangements**

***Tom M. Djokovich***

Mr. Djokovich serves as our Chief Executive Officer, acting Principal Accounting Officer, President effective January 9, 2013, and a Director. We do not have an employment agreement with Mr. Djokovich. He currently works at the discretion of the board of directors as he has since October 2003. His annual base compensation for the 2013 fiscal period was \$124,200 in collected wages. Mr. Djokovich was also provided with approximately \$649 for use in the payment of medical benefits. His total compensation is based solely on the annual base cash salary and we do not have any equity based, cash bonus, or special compensation agreements or understanding in place with Mr. Djokovich. Mr. Djokovich is also subject to confidentiality and non-solicitation provisions which provide that Mr. Djokovich will not divulge information or solicit employees for 24 months after termination of his employment.

***Joseph Grimes***

Mr. Grimes served as our President and COO through January 9, 2013, and is presently a director. We do not have an employment agreement with Mr. Grimes and in the 2013 fiscal period he worked at the discretion of the board of directors. His compensation for the 2013 fiscal period was \$18,000 in collected wages and benefits as he assisted the Company in the capacity of executive sales manager, Mr. Grimes was also provided with approximately \$3,002 for use in the payment of medical benefits. Mr. Grimes also received a grant of stock options with a fair market value on the date of grant totaling \$10,785. Mr. Grimes is also subject to confidentiality and non-solicitation provisions which provide that Mr. Grimes will not divulge information or solicit employees for 24 months after termination of his employment.

**Potential Payments Upon Termination or Change-In-Control**

None

**Long Term Incentive Plans Awards in Last Fiscal Year**

None

## Director Compensation

In the fiscal year ended September 30, 2013, Directors received no cash compensation for their service to the Company as directors. Each non-affiliated Director did receive an option grant in the amount of 1,000,000 options exercisable at \$0.014 cents each into common shares of the Company's stock. All Directors were reimbursed for any expenses actually incurred in connection with attending meetings of the Board of Directors.

### SUMMARY COMPENSATION TABLE OF DIRECTORS

| Name               | Fees                         |                 |                  | All                   |        |
|--------------------|------------------------------|-----------------|------------------|-----------------------|--------|
|                    | Earned or<br>Paid in<br>Cash | Stock<br>Awards | Option<br>Awards | Other<br>Compensation | Total  |
|                    | (\$)                         | (\$)            | (\$)             | (\$)                  | (\$)   |
| Tom Djokovich (1)  | 0                            | 0               | 0                | 0                     | 0      |
| Joseph Grimes (2)  | 0                            | 0               | 10,785           | 0                     | 10,785 |
| Thomas Anderson    | 0                            | 0               | 10,785           | 0                     | 10,785 |
| Oz Fundingsland    | 0                            | 0               | 10,785           | 0                     | 10,785 |
| Dr. Michael Russak | 0                            | 0               | 10,785           | 0                     | 10,785 |

- (1) Mr. Djokovich received compensation as CEO totaling \$124,879 in the year ended September 30, 2013. For additional information please see Executive Compensation Summary Compensation Table above.
- (2) Mr. Grimes received an additional \$21,002 compensation as President in the year ended September 30, 2013. For additional information please see Executive Compensation Summary Compensation Table above

## Compensation Committee Interlocks and Insider Participation

For the fiscal year ended September 30, 2013 adjustments or additions to new or existing employment agreements were reviewed and deliberated by the five members of the Company's Board of Directors.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters



The following table sets forth, as of September 30, 2013, the number of shares of common stock owned of record and beneficially by executive officers, directors and persons who hold 5.0% or more of the outstanding common stock of the Company. Also included are the shares held by all executive officers and directors as a group. Unless otherwise indicated, the address of each beneficial owner listed below is c/o XsunX, Inc., 65 Enterprise, Aliso Viejo, California 92656.

| <b>Shareholders/Beneficial Owners</b>                           | <b>Number of<br/>Common Shares</b> | <b>Number of<br/>Series A<br/>Preferred<br/>Shares</b> | <b>Ownership<br/>Percentage(1)</b> |
|---|------------------------------------|--|------------------------------------|
| Tom Djokovich (1) (2) (3)                                       |                                    |  |                                    |
| President & Director<br>Thomas Anderson                         | 14,493,000                         | 5,000  | 61.12%                             |
| Director<br>Oz Fundingsland                                     | 1,500,000                          | 0  | < 1%                               |
| Director<br>Mike Russak   | 1,500,000                          | 0  | < 1%                               |
| Director<br>Joseph Grimes                                       | 1,500,000                          | 0  | < 1%                               |
| Director<br>All Officers & Directors as a Group (5 individuals) | 4,500,000<br>23,493,000            | 0<br>5,000   | < 1%<br>4.82%                      |

Each principal shareholder has sole investment power and sole voting power over the shares.

- (1) Applicable percentage ownership is based on 517,321,256 shares of common stock issued and outstanding as of January 13, 2014. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of January 13, 2014 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
- (2) Includes 14,068,000 shares owned by the Djokovich Limited Partnership. Mr. Djokovich shares voting and dispositive power with respect to these shares with Mrs. Djokovich.
- (3) The Series A Preferred Shares have the voting equivalent of not less than 60% of the issued and outstanding common stock (representing a super majority voting power) of the vote required to approve any action, in which the shareholders of the Company's common stock may vote. As of January 13, 2014, Mr. Djokovich held 14,493,000 shares of the Company's common stock and 5,000 shares of the Company's Series A Preferred stock representing the combined voting equivalent of 316,189,953 shares of common stock or approximately 61.12% of the Company's voting stock.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

No officer, director, or related person of the Company has or proposes to have any direct or indirect material interest in any asset proposed to be acquired by the Company through securities holdings, contracts, options or otherwise or any transaction in which the amount involved exceeds the lesser of \$120,000 or one percent of the Company's total assets at year end.

The Company has adopted a policy under which any consulting or finder's fee that may be paid to a third party for consulting services to assist management in evaluating a prospective business opportunity can be paid in stock, stock purchase options or in cash. Any such issuance of stock or stock purchase options would be made on an ad hoc basis. Accordingly, the Company is unable to predict whether or in what amount such a stock issuance might be made.

The following directors are independent: Thomas Anderson, Oz Fundingsland, Joseph Grimes, and Dr. Michael Russak.

The following directors are not independent: Tom Djokovich.

### ***Change of Control of the Company***

On June 27, 2013, the Company amended its Articles of Incorporation for the creation of its Series A Preferred Stock designating 10,000 shares of its authorized Preferred Stock as Series A Preferred Stock. The Series A Preferred Shares have a par value of \$0.01 per share. The Series A Preferred Shares do not have a dividend rate and are not redeemable. In addition, the Series A Preferred Shares rank senior to the Company's common stock. The Series A Preferred Shares have voting rights equal to that of the common stockholders and may vote on any matter that common shareholders may vote. One or more shares of Series A Preferred Stock has the voting equivalent of not less than 60% of the issued and outstanding common stock (representing a super majority voting power) of the vote required to approve any action, in which the shareholders of the Company's common stock may vote. In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the Holders of shares of Series A Preferred Stock shall be entitled to receive, immediately after any distributions to Senior Securities required by the Company's Certificate of Incorporation or any certificate of designation, and prior in preference to any distribution to Junior Securities but in parity with any distribution to Parity Securities, an amount per share equal to \$.01 per share. Holders of shares of Series A Preferred Stock shall not be entitled to any dividends, and the Company has no redemption rights for Series A Preferred Stock issued.

On June 27, 2013, the Board of Directors of the Company authorized the issuance of 5,000 shares of Series A Preferred Stock (the "Shares") to the Company's Chief Executive Officer and Director, Tom M. Djokovich. The Shares were issued in consideration for the contribution of services by Mr. Djokovich to the Company valued at fifty dollars, which the Board deemed full and fair consideration. As a result of such issuance, Mr. Djokovich has the ability to influence and determine stockholder votes.

**Issuance of Stock Purchase Options**

In the year ended September 30, 2013, the Board of Directors authorized the grant of stock option agreements to the named individuals listed below as follows:

|                        | <b>Date</b>    | <b>Number</b> | <b>Exercise</b> | <b>Expiration</b> |  |
|------------------------|----------------|---------------|-----------------|-------------------|--|
|                        | <b>Issued</b>  | <b>Issued</b> | <b>Price</b>    | <b>Date</b>       | <b>Consideration</b>   |
| Thomas Anderson (1)    | March 21, 2013 | 1,000,000     | \$ 0.014        | 21-Mar-16         | Future deliverables within the scope of the Directors influence                    |
| Oz Fundingsland (1)    | March 21, 2013 | 1,000,000     | \$ 0.014        | 21-Mar-16         | Future deliverables within the scope of the Directors influence                    |
| Dr. Michael Russak (1) | March 21, 2013 | 1,000,000     | \$ 0.014        | 21-Mar-16         | Future deliverables within the scope of the Directors influence                    |
| Joseph Grimes (1)      | March 21, 2013 | 1,000,000     | \$ 0.014        | 21-Mar-16         | Future deliverables within the scope of the Directors influence                    |
| Dr. John Tuttle (2)    | May 13, 2013   | 500,000       | \$ 0.014        | 13-May-15         | Consulting services and deliverables within the scope of the consultants influence |

(1) The options issued to the named directors vested upon issuance of the grant to each named individual.

(2) Two Hundred Fifty Thousand options vested upon issuance and the balance vest sixty days thereafter.

***Issuance of Convertible Promissory Notes***

On October 1, 2013, the Company entered into four (4) promissory notes each in the amount of \$12,000 in payment for services performed by the Board of Directors. The notes bears zero interest if paid on or before the one (1) year anniversary from the effective date. If the note is not paid on or before the one (1) year anniversary a one-time interest charge of 10% shall be applied to the principal sum. The holder has the right to convert the note at the lesser of \$0.005 or the average of the three (3) closing share prices occurring immediately preceding the applicable conversion date.

**Item 14. Principal Accounting Fees and Services**

**2013**

For the fiscal year ended September 30, 2013 HJ Associates & Consultants, LLP incurred \$31,000 in Audit Fees for the following professional services: review of the interim financial statements included in quarterly reports on Form 10-Q for the periods ended December 30, 2012, March 31, 2013, June 30, 2013 and for audit fees related to the Company's annual report on Form 10-K. No Audit-Related, Tax or other fees were billed by HJ Associates & Consultants, LLP in the fiscal year ended September 30, 2013.

**2012**

For the fiscal year ended September 30, 2012 HJ Associates & Consultants, LLP incurred \$35,400 in Audit Fees for the following professional services: review of the interim financial statements included in quarterly reports on Form 10-Q for the periods ended December 30, 2011, March 31, 2012, June 30, 2012 and for audit fees related to the Company's annual report on Form 10-K. No Audit-Related, Tax or other fees were billed by HJ Associates & Consultants, LLP in the fiscal year ended September 30, 2012.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

- 3.1 Articles of Incorporation(1)
- 3.2 Bylaws(2)
- 10.1 XsunX Plan of Reorganization and Asset Purchase Agreement, dated September 23, 2003.(3)
- 10.2 XsunX 2007 Stock Option Plan, dated January 5, 2007.(4)
- 10.3 Amendment to Articles of Incorporation for the increase to authorized shares.(5)
- 10.4 Certificate of Designation for Preferred Shares.(6)
- 10.5 Form of Exchange Agreement and 10% Note used in connection with the exchange and extension to a promissory note that had become due September 1, 2011. (7)
- 10.6 Form of Securities Purchase Agreement and Convertible Promissory Note used in connection with the sale of seventeen 8% convertible promissory notes between October 27, 2011, and January 14, 2014. (7)
- 10.7 Form of Security Purchase and Warrant Agreements used in connection with the sale of equity to an accredited investor on February 16, 2012, and March 19, 2012.(7)
- 10.8 Form of Exchange Agreement and 12% Note used in connection with the exchange and 12 month extension to a promissory note that had become due September 30, 2012. (8)
- 10.9 Form of Convertible Promissory Note issued on November 7, 2012, used in connection with the sale of a convertible promissory note. (8)
- 10.1 Form of Convertible Promissory Note issued on December 14, 2012, used in connection with the sale of a 10% convertible promissory note. (8)
- 10.11 Form of Extension Agreement and Restated 12% Note used in connection with the exchange and 12 month extension to a promissory note that had become due September 30, 2013. (9)
- 10.12 Form of Convertible Promissory Notes issued to four members of the Board of Directors dated October 1, 2013. (9)
- 10.13 Form of Option Agreement used in connection with the retention of a scientific advisor and the issuance of stock options for the purchase of common stock on May 13, 2013. (10)
- 10.14 June 27, 2012 Order for Approval of Stipulation for settlement of claims between the Company and Ironridge Global IV, Ltd. (10)
- 10.15 Form of Consulting Agreement used in connection with the retention of a scientific advisor and the issuance of 2,000,000 shares of common stock. (11)
- 10.16 Form of Stock Option Agreement used by the Company to grant 500,000 common stock purchase options to each of three members of the Board of Directors on January 11, 2012. (12)
- 10.17 Form of Stock Option Agreement used by the Company to grant 1,000,000 common stock purchase options to each of four members of the Board of Directors on March 21, 2013. (13)
- 10.18 Form of Consulting Agreement between Joseph Grimes and the Company dated November 1, 2013. (13)
- 16.1 Auditor Letter(13)
- 31.1 Sarbanes-Oxley Certification(13)
- 32.1 Sarbanes Oxley Section 906 Certification (13)
  - (1) Incorporated by reference to Registration Statement Form 10SB12G #000-29621 dated February 18, 2000 and by reference to exhibits included with the Company s prior Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003.
  - (2)

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Incorporated by reference to Registration Statement Form 10SB12G #000-29621 filed with the Securities and Exchange Commission dated February 18, 2000.

- (3) Incorporated by reference to exhibits included with the Company's Report on Form 8-K/A filed with the Securities and Exchange Commission dated October 29, 2003.
- (4) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated January 5, 2007.
- (5) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated August 19, 2013.
- (6) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated July 2, 2013.
- (7) Incorporated by reference to exhibits included with the Company's Report on Form 10-K filed with the Securities and Exchange Commission dated December 29, 2011.

- (8) Incorporated by reference to exhibits included with the Company's Report on Form 10-K filed with the Securities and Exchange Commission dated January 11, 2013.
- (9) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated November 12, 2013.
- (10) Incorporated by reference to exhibits included with the Company's Report on Form 10-Q filed with the Securities and Exchange Commission dated August 12, 2013.
- (11) Incorporated by reference to exhibits included with the Company's Report on Form 10-Q filed with the Securities and Exchange Commission dated October 14, 2012.
- (12) Incorporated by reference to exhibits included with the Company's Report on Form 10-Q filed with the Securities and Exchange Commission dated February 13, 2012.
- (13) Provided Herewith



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders  
XsunX, Inc. (A Development Stage Company)

Alisa Viejo, California

We have audited the accompanying balance sheets of XsunX, Inc. (a development stage company) as of September 30, 2013 and 2012 and the related statements of operations, stockholders' deficit, and cash flows for the years then ended and for the period from February 25, 1997 (inception) to September 30, 2013. 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. The financial statements for the period from February 25, 1997 (inception) to September 30, 2008 were audited by other auditors and our opinion, insofar as it relates to cumulative amounts included for such prior periods, is based solely on the reports of such other auditors.

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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 XsunX, Inc. (a development stage company) as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended and for the period from February 25, 1997 (inception) to September 30, 2013, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company does not generate significant revenue and has negative cash flows from operations which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ HJ Associates & Consultants, LLP  
HJ Associates & Consultants, LLP

Salt Lake City, Utah

January 14, 2014

## XSUNX, INC.

(A Development Stage Company)

## Balance Sheets

|   | September 30, 2013 | September 30, 2012 |
|---|--------------------|--------------------|
| <b>ASSETS</b>   |                    |                    |
| <b>CURRENT ASSETS</b>                                       |                    |                    |
|   | \$                 | \$                 |
| Cash  | 38,573             | 44,527             |
| Prepaid expenses  | 16,117             | 162,186            |
| <b>Total Current Assets</b>                                 | <b>54,690</b>      | <b>206,713</b>     |
| <b>PROPERTY &amp; EQUIPMENT</b>                             |                    |                    |
| Office & Miscellaneous equipment                            | 35,853             | 35,853             |
| Machinery & equipment                                       | 266,366            | 232,084            |
| Leasehold improvements                                      | 17,500             | 17,500             |
| <b>Total Property &amp; Equipment</b>                       | <b>319,719</b>     | <b>285,437</b>     |
| Less accumulated depreciation                               | (225,397)          | (206,178)          |
| <b>Net Property &amp; Equipment</b>                         | <b>94,322</b>      | <b>79,259</b>      |
| <b>OTHER ASSETS</b>   |                    |                    |
| Manufacturing equipment in progress                         | -                  | 309,082            |
| Security deposit  | 2,500              | 5,700              |
| <b>Total Other Assets</b>                                   | <b>2,500</b>       | <b>314,782</b>     |
|   | \$                 | \$                 |
| <b>TOTAL ASSETS</b>   | <b>151,512</b>     | <b>600,754</b>     |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>                |                    |                    |
| <b>CURRENT LIABILITIES</b>                                  |                    |                    |
|   | \$                 | \$                 |
| Accounts payable  | 147,629            | 143,555            |
| Accrued expenses  | 1,962              | 840                |
| Credit card payable   | 107                | 2,623              |
| Accrued interest on notes payable                           | 14,358             | 40,243             |
| Derivative liability  | 705,118            | 150,926            |
| Convertible promissory notes, net of \$104,035 in discounts | 74,964             | 63,465             |
| Unsecured promissory note                                   | -                  | 350,000            |
| <b>Total Current Liabilities</b>                            | <b>944,138</b>     | <b>751,652</b>     |

|   |              |              |
|---|--------------|--------------|
| TOTAL LIABILITIES   | 944,138      | 751,652      |
| STOCKHOLDERS' DEFICIT   |              |              |
| Preferred Stock Series A, \$0.01 par value, 10,000 authorized   |              |              |
| 5,000 and 0 shares issued and outstanding, respectively.  | 50           | -            |
| Common stock, no par value; 2,000,000,000 authorized common shares 429,043,441 and 281,233,150 shares issued and outstanding, respectively. | 29,175,261   | 27,341,594   |
| Additional paid in capital  | 5,335,398    | 5,335,248    |
| Paid in capital, common stock warrants  | 3,811,700    | 3,764,913    |
| Deficit accumulated during the development stage  | (39,115,035) | (36,592,653) |
| TOTAL STOCKHOLDERS' DEFICIT   | (792,626)    | (150,898)    |
|   | \$           | \$           |
| TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT  | 151,512      | 600,754      |

The Accompanying Notes are an Integral Part of These Financial Statements

## XSUNX, INC.

(A Development Stage Company)

## Statements of Operations

|   | Years Ended           |                       | From Inception<br>February 25,<br>1997 through<br>September 30,<br>2013 |
|---|-----------------------|-----------------------|---|
|   | September 30,<br>2013 | September 30,<br>2012 |   |
|   | \$                    | \$                    | \$  |
| REVENUE   | -                     | -                     | 14,880  |
| OPERATING EXPENSES                                    |                       |                       |   |
| Selling, general and administrative expenses          | 532,624               | 645,546               | 19,054,970  |
| Research and Development                              | 426,371               | 122,673               | 3,711,998   |
| Depreciation and amortization expense                 | 34,937                | 41,706                | 764,469   |
| TOTAL OPERATING EXPENSES                              | 992,932               | 809,925               | 23,531,437  |
| LOSS FROM OPERATIONS BEFORE OTHER<br>INCOME/(EXPENSE) | (992,932)             | (809,925)             | (23,516,557)  |
| OTHER INCOME/(EXPENSES)                               |                       |                       |   |
| Interest income                                       | -                     | -                     | 445,537   |
| Gain on sale of asset                                 | 8,000                 | -                     | 24,423  |
| Impairment of assets                                  | -                     | -                     | (7,285,120)   |
| Financing cost  | (321,579)             | -                     | (321,579)   |
| Write down of inventory asset                         | -                     | -                     | (1,177,000)   |
| Gain on legal settlement                              | -                     | -                     | 1,279,580   |
| Loan and commitment fees                              | (8,966)               | (85,734)              | (7,096,690)   |
| Forgiveness of debt                                   | -                     | -                     | 592,154   |
| Loss on conversion of debt                            | (1,237,183)           | (441,522)             | (1,678,705)   |
| Gain on change in derivative liability                | (746,956)             | 39,969                | 786,925   |
| Other, non-operating                                  | -                     | -                     | (5,215)   |
| Penalties   | -                     | (23)                  | (619)   |
| Interest expense                                      | (716,678)             | (257,959)             | (1,162,169)   |
| TOTAL OTHER INCOME/(EXPENSE)                          | (1,529,450)           | (745,269)             | (15,598,478)  |
| NET LOSS  | \$                    | \$                    | \$  |

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|   |             |             |              |
|---|-------------|-------------|--------------|
|   | (2,522,382) | (1,555,194) | (39,115,035) |
|   | \$          | \$          |              |
| BASIC AND DILUTED LOSS PER SHARE                                | (0.01)      | (0.01)      |              |
| WEIGHTED-AVERAGE COMMON SHARES<br>OUTSTANDING BASIC AND DILUTED | 343,568,944 | 247,855,835 |              |

The Accompanying Notes are an Integral Part of These Financial Statements

## XSUNX, INC.

(A Development Stage Company)

## Statements of Stockholders' Deficit

From Inception February 25, 1997 to September 30, 2013

|  | Preferred Stock |        | Common Stock |          | Additional         | Stock                                      | Deficit<br>Accumulated<br>during<br>the<br>Development<br>Stage | Total     |
|--|-----------------|--------|--------------|----------|--------------------|--|---|-----------|
|  | Shares          | Amount | Shares       | Amount   | Paid-in<br>Capital | Options/<br>Warrants<br>Paid-in<br>Capital |   |           |
|  |                 | \$     |              | \$       | \$                 | \$   | \$  | \$        |
| Balance at<br>September 30, 1996                     | -               | -      | -            | -        | -                  | -  | -   | -         |
| Issuance of stock<br>for cash                        | -               | -      | 15,880       | 217,700  | -                  | -  | -   | 217,700   |
| Issuance of stock to<br>Founders                     | -               | -      | 14,110       | -        | -                  | -  | -   | -         |
| Issuance of stock<br>for consolidation               | -               | -      | 445,000      | 312,106  | -                  | -  | -   | 312,106   |
| Net Loss for the<br>year ended<br>September 30, 1997 | -               | -      | -            | -        | -                  | -  | (193,973)   | (193,973) |
| Balance at<br>September 30, 1997                     | -               | -      | 474,990      | 529,806  | -                  | -  | (193,973)   | 335,833   |
| Issuance of stock<br>for services                    | -               | -      | 1,500        | 30,000   | -                  | -  | -   | 30,000    |
| Issuance of stock<br>for cash                        | -               | -      | 50,200       | 204,000  | -                  | -  | -   | 204,000   |
| Consolidation stock<br>cancelled                     | -               | -      | (60,000)     | (50,000) | -                  | -  | -   | (50,000)  |
| Net Loss for the<br>year ended<br>September 30, 1998 | -               | -      | -            | -        | -                  | -  | (799,451)   | (799,451) |
| Balance at<br>September 30, 1998                     | -               | -      | 466,690      | 713,806  | -                  | -  | (993,424)   | (279,618) |
| Issuance of stock<br>for cash                        | -               | -      | 151,458      | 717,113  | -                  | -  | -   | 717,113   |
| Issuance of stock<br>for services                    | -               | -      | 135,000      | 463,500  | -                  | -  | -   | 463,500   |

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|                             |   |   |         |           |   |   |             |             |
|-----------------------------|---|---|---------|-----------|---|---|-------------|-------------|
| Net Loss for the year ended |   |   |         |           |   |   |             |             |
| September 30, 1999          | - | - | -       | -         | - | - | (1,482,017) | (1,482,017) |
| Balance at                  |   |   |         |           |   |   |             |             |
| September 30, 1999          | - | - | 753,148 | 1,894,419 | - | - | (2,475,441) | (581,022)   |
| Issuance of stock for cash  | - | - | 15,000  | 27,000    | - | - | -           | 27,000      |
| Net Loss for the year ended |   |   |         |           |   |   |             |             |
| September 30, 2000          | - | - | -       | -         | - | - | (118,369)   | (118,369)   |
| Balance at                  |   |   |         |           |   |   |             |             |
| September 30, 2000          | - | - | 768,148 | 1,921,419 | - | - | (2,593,810) | (672,391)   |
| Extinguishment of debt      | - | - | -       | 337,887   | - | - | -           | 337,887     |
| Net Loss for the year ended |   |   |         |           |   |   |             |             |
| September 30, 2001          | - | - | -       | -         | - | - | (32,402)    | (32,402)    |
| Balance at                  |   |   |         |           |   |   |             |             |
| September 30, 2001          | - | - | 768,148 | 2,259,306 | - | - | (2,626,212) | (366,906)   |
| Net Loss for the year ended |   |   |         |           |   |   |             |             |
| September 30, 2002          | - | - | -       | -         | - | - | (47,297)    | (47,297)    |
| Balance at                  |   |   |         |           |   |   |             |             |
| September 30, 2002          | - | - | 768,148 | 2,259,306 | - | - | (2,673,509) | (414,203)   |



|  |   |   |             |           |           |           |             |             |
|--|---|---|-------------|-----------|-----------|-----------|-------------|-------------|
| Issuance of stock for assets                   | - | - | 70,000,000  | 3         | -         | -         | -           | 3           |
| Issuance of stock for cash                     | - | - | 9,000,000   | 225,450   | -         | -         | -           | 225,450     |
| Issuance of stock for debt                     | - | - | 115,000     | 121,828   | -         | -         | -           | 121,828     |
| Issuance of stock for expenses                 | - | - | 115,000     | 89,939    | -         | -         | -           | 89,939      |
| Issuance of stock for services                 | - | - | 31,300,000  | 125,200   | -         | -         | -           | 125,200     |
| Net Loss for the year ended September 30, 2003 | - | - | -           | -         | -         | -         | (145,868)   | (145,868)   |
| Balance at September 30, 2003                  | - | - | 111,298,148 | 2,821,726 | -         | -         | (2,819,377) | 2,349       |
| Issuance of stock for cash                     | - | - | 2,737,954   | 282,670   | -         | -         | -           | 282,670     |
| Warrant expense                                | - | - | -           | -         | -         | 825,000   | 375,000     | 1,200,000   |
| Net Loss for the year ended September 30, 2004 | - | - | -           | -         | -         | -         | (1,509,068) | (1,509,068) |
| Balance at September 30, 2004                  | - | - | 114,036,102 | 3,104,396 | -         | 825,000   | (3,953,445) | (24,049)    |
| Issuance of stock for cash                     | - | - | 6,747,037   | 531,395   | -         | -         | -           | 531,395     |
| Issuance of stock for services                 | - | - | 3,093,500   | 360,945   | -         | -         | -           | 360,945     |
| Warrant expense                                | - | - | -           | -         | -         | 180,000   | -           | 180,000     |
| Beneficial conversion                          | - | - | -           | -         | 400,000   | -         | -           | 400,000     |
| Shares held as collateral for debentures       | - | - | 26,798,418  | -         | -         | -         | -           | -           |
| Net Loss for the year ended September 30, 2005 | - | - | -           | -         | -         | -         | (1,980,838) | (1,980,838) |
| Balance at September 30, 2005                  | - | - | 150,675,057 | 3,996,736 | 400,000   | 1,005,000 | (5,934,283) | (532,547)   |
| Issuance of stock for services                 | - | - | 72,366      | 31,500    | -         | -         | -           | 31,500      |
| Warrant expense                                | - | - | -           | -         | -         | 996,250   | -           | 996,250     |
| Beneficial conversion                          | - | - | -           | -         | 5,685,573 | -         | -           | 5,685,573   |
| Debenture conversion                           | - | - | 21,657,895  | 5,850,000 | -         | -         | -           | 5,850,000   |
| Issuance of stock for interest expense         | - | - | 712,956     | 241,383   | -         | -         | -           | 241,383     |

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|  |   |   |              |            |           |           |              |             |
|--|---|---|--------------|------------|-----------|-----------|--------------|-------------|
| Issuance of stock for warrant conversion       | - | - | 10,850,000   | 3,171,250  | -         | -         | -            | 3,171,250   |
| Net Loss for the year ended September 30, 2006 | - | - | -            | -          | -         | -         | (9,112,988)  | (9,112,988) |
| Balance at September 30, 2006 (restated)       | - | - | 183,968,274  | 13,290,869 | 6,085,573 | 2,001,250 | (15,047,271) | 6,330,421   |
| Cancellation of stock for services returned    | - | - | (150,000)    | -          | -         | -         | -            | -           |
| Release of security collateral                 | - | - | (26,798,418) | -          | -         | -         | -            | -           |
| Issuance of stock for warrants                 | - | - | 900,000      | 135,000    | -         | -         | -            | 135,000     |
| Stock option and warrant expense               | - | - | -            | -          | -         | 772,315   | -            | 772,315     |
| Net Loss for the year ended September 30, 2007 | - | - | -            | -          | -         | -         | (1,968,846)  | (1,968,846) |
| Balance at September 30, 2007 (restated)       | - | - | 157,919,856  | 13,425,869 | 6,085,573 | 2,773,565 | (17,016,117) | 5,268,890   |

The Accompanying Notes are an Integral Part of These Financial Statements

## XSUNX, INC.

(A Development Stage Company)

## Statements of Stockholders' Deficit

From Inception February 25, 1997 to September 30, 2013

|   | Preferred Stock |        | Common Stock |            | Additional<br>Paid-in<br>Capital | Stock<br>Options/<br>Warrants<br>Paid-<br>in<br>Capital | Deficit<br>Accumulated<br>during<br>the<br>Development<br>Stage | Total       |
|---|-----------------|--------|--------------|------------|----------------------------------|---|---|-------------|
|   | Shares          | Amount | Shares       | Amount     |                                  |   |   |             |
| Fusion Equity common stock purchase   | -               | -      | 15,347,581   | 5,200,000  | (55,300)                         | -   | 5,144,700   |             |
| Commitment fees   | -               | -      | 3,500,000    | 1,190,000  | (1,190,000)                      | -   | -   | -           |
| Cumorah common stock purchase   | -               | -      | 8,650,000    | 2,500,000  | -                                | -   | 2,500,000   |             |
| Wharton Settlement  | -               | -      | 875,000      | 297,500    | (397,500)                        | -   | (100,000)   |             |
| MVS warrant cancellation  | -               | -      | -            | -          | 805,440                          | (805,440)   | -   | -           |
| Stock options and warrant expense   | -               | -      | -            | -          | -                                | 673,287   | -   | 673,287     |
| Net Loss for the year ended September 30, 2008  | -               | -      | -            | -          | -                                | -   | (4,058,952)   | (4,058,952) |
| Balance at September 30, 2008   | -               | -      | 186,292,437  | 22,613,369 | 5,248,213                        | 32,641,412  | (21,075,069)  | 142,925     |
| Issuance of common shares in October 2008 for cash (2,000,000 common shares issued at \$0.20 per share)                   | -               | -      | 2,000,000    | 400,000    | -                                | -   | -   | 400,000     |
| Issuance of common shares in November 2008 for cash (1,000,000 common shares issued at \$0.20 per share)                  | -               | -      | 1,000,000    | 200,000    | -                                | -   | -   | 200,000     |
| Issuance of common shares in November 2008 for services (50,000 common shares issued at a fair value of \$0.22 per share) | -               | -      | 50,000       | 11,000     | -                                | -   | -   | 11,000      |

|  |   |   |           |         |   |   |   |         |
|--|---|---|-----------|---------|---|---|---|---------|
| Issuance of common shares in August 2009 for cash (1,129,483 common shares issued at \$0.062 per share)                    | - | - | 1,129,483 | 70,000  | - | - | - | 70,000  |
| Issuance of common shares in August 2009 for services (900,000 common shares issued at a fair value of \$0.12 per share)   | - | - | 900,000   | 108,000 | - | - | - | 108,000 |
| Issuance of common shares in August 2009 for services (76,976 common shares issued at a fair value of \$0.1364 per share)  | - | - | 76,976    | 10,500  | - | - | - | 10,500  |
| Issuance of common shares in September 2009 for services (35,714 common shares issued at a fair value of \$0.14 per share) | - | - | 35,714    | 5,000   | - | - | - | 5,000   |

|  |   |   |             |            |           |           |              |              |
|--|---|---|-------------|------------|-----------|-----------|--------------|--------------|
| Issuance of common shares in September 2009 for cash (5,000,000 common shares issued at \$0.07 per share)                    | - | - | 5,000,000   | 350,000    | -         | -         | -            | 350,000      |
| Stock compensation expense   | - | - | -           | -          | -         | 534,518   | -            | 534,518      |
| Net Loss for the year ended September 30, 2009   | - | - | -           | -          | -         | -         | (10,634,133) | (10,634,133) |
| Balance at September 30, 2009  | - | - | 196,484,610 | 23,767,869 | 5,248,213 | 3,175,930 | (31,709,202) | 482,810      |
| Issuance of common shares in October 2009 for cash (2,556,818 common shares issued at \$0.088 per share)                     | - | - | 2,556,818   | 225,000    | -         | -         | -            | 225,000      |
| Issuance of common shares in November 2009 for services (53,789 common shares issued at a fair value of \$0.1859 per share)  | - | - | 53,789      | 10,000     | -         | -         | -            | 10,000       |
| Issuance of common shares in December 2009 for subscription receivable (1,000,000 common shares issued at \$0.088 per share) | - | - | 1,000,000   | 88,000     | -         | -         | -            | 88,000       |
| Issuance of common shares in March 2010 for cash (2,000,000 common shares issued at \$0.075 per share)                       | - | - | 2,000,000   | 150,000    | -         | -         | -            | 150,000      |
| Issuance of common shares in March 2010 for services (139,424 common shares issued at \$0.16137 per share)                   | - | - | 139,424     | 22,500     | -         | -         | -            | 22,500       |
| Issuance of common shares in March 2010 for cash (6,250,000 common shares issued at \$0.10 per share)                        | - | - | 6,250,000   | 500,000    | -         | -         | -            | 500,000      |

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|  |   |   |             |            |           |           |              |             |
|--|---|---|-------------|------------|-----------|-----------|--------------|-------------|
| Issuance of common shares<br>in September 2010 for cash<br>(279,661 common shares<br>issued at \$0.09167 per<br>share) | - | - | 279,661     | 25,000     | -         | -         | -            | 25,000      |
| Issuance of common shares<br>in September 2010 for cash<br>(291,035 common shares<br>issued at \$0.088 per share)      | - | - | 291,035     | 25,000     | -         | -         | -            | 25,000      |
| Stock compensation<br>expense  | - | - | -           | -          | -         | 273,133   | -            | 273,133     |
| Stock issuance costs   | - | - | -           | -          | (10,000)  | -         | -            | (10,000)    |
| Net Loss for the year ended<br>September 30, 2010  | - | - | -           | -          | -         | -         | (2,210,603)  | (2,210,603) |
| Balance at September 30,<br>2010   | - | - | 209,055,337 | 24,813,369 | 5,238,213 | 3,449,063 | (33,919,805) | (419,160)   |

The Accompanying Notes are an Integral Part of These Financial Statements

## XSUNX, INC.

(A Development Stage Company)

## Statements of Stockholders' Deficit

From Inception February 25, 1997 to September 30, 2013

|  | Preferred Stock |        | Common Stock |            | Additional<br>Paid-in<br>Capital | Stock<br>Options/<br>Warrants<br>Paid- in<br>Capital | Deficit<br>Accumulated<br>during<br>the<br>Development<br>Stage | Total       |
|--|-----------------|--------|--------------|------------|----------------------------------|--|---|-------------|
|  | Shares          | Amount | Shares       | Amount     |                                  |  |   |             |
| Issuance of common shares for cash   | -               | -      | 13,263,096   | 825,000    | -                                | -  | -   | 825,000     |
| Issuance of common shares for a cashless exercise of warrants                      | -               | -      | 2,680,204    | -          | -                                | -  | -   | -           |
| Stock compensation costs   | -               | -      | -            | -          | -                                | 186,016  | -   | 186,016     |
| Net Loss for the year ended September 30, 2011                                     | -               | -      | -            | -          | -                                | -  | (1,117,654)   | (1,117,654) |
| Balance at September 30, 2011  | -               | -      | 224,998,637  | 25,638,369 | 5,238,213                        | 3,635,079  | (35,037,459)  | (525,798)   |
| Issuance of common shares for cash (prices between \$0.015 and \$0.0165 per share) | -               | -      | 3,181,819    | 50,000     | -                                | -  | -   | 50,000      |
| Shares issued for conversion of debt at fair value                                 | -               | -      | 7,000,000    | 420,000    | -                                | -  | -   | 420,000     |
| Issuance of common stock for conversion of notes and interest                      | -               | -      | 8,741,825    | 148,120    | -                                | -  | -   | 148,120     |
| Write down of fair value of notes converted  | -               | -      | -            | 119,605    | -                                | -  | -   | 119,605     |
|  | -               | -      | 3,450,078    | 115,500    | -                                | -  | -   | 115,500     |

|   |   |   |             |            |           |           |              |             |
|---|---|---|-------------|------------|-----------|-----------|--------------|-------------|
| Issuance of<br>common stock for<br>services at fair<br>value  |   |   |             |            |           |           |              |             |
| Issuance of<br>common stock for<br>accounts payable           | - | - | 26,000,000  | 780,000    | -         | -         | -            | 780,000     |
| Issuance of<br>common stock for<br>commitment fees            | - | - | 1,500,000   | 45,000     | -         | -         | -            | 45,000      |
| Issuance of<br>common stock for<br>prepaid rent               | - | - | 500,000     | 25,000     | -         | -         | -            | 25,000      |
| Issuance of<br>common stock<br>through a cashless<br>exercise | - | - | 5,860,791   | -          | -         | -         | -            | -           |
| Stock<br>compensation<br>expense                              | - | - | -           | -          | -         | 129,834   | -            | 129,834     |
| Contributed capital   | - | - | -           | -          | 37,035    | -         | -            | 37,035      |
| Contributed<br>services                                       | - | - | -           | -          | 60,000    | -         | -            | 60,000      |
| Net Loss for the<br>year ended<br>September 30,<br>2012       | - | - | -           | -          | -         | -         | (1,555,194)  | (1,555,194) |
| Balance at<br>September 30,<br>2012                           | - | - | 281,233,150 | 27,341,594 | 5,335,248 | 3,764,913 | (36,592,653) | (150,898)   |



|   |       |    |             |            |           |           |                 |              |
|---|-------|----|-------------|------------|-----------|-----------|-----------------|--------------|
| Issuance of common stock for conversion of notes and interest | -     | -  | 99,818,103  | 968,677    | -         | -         | -               | 968,677      |
| Issuance of Series A preferred stock                          | 5,000 | 50 | -           | -          | 150       | -         | -               | 200          |
| Issuance of common stock for services at fair value           | -     | -  | 3,908,171   | 26,200     | -         | -         | -               | 26,200       |
| Issuance of common stock for debt                             | -     | -  | 43,584,017  | 828,790    | -         | -         | -               | 828,790      |
| Issuance of common stock for commitment fees                  | -     | -  | 500,000     | 10,000     | -         | -         | -               | 10,000       |
| Stock compensation expense                                    | -     | -  | -           | -          | -         | 46,787    | -               | 46,787       |
| Net Loss for the year ended September 30, 2013                | -     | -  | -           | -          | -         | -         | (2,522,382)     | (2,522,382)  |
|   |       | \$ |             | \$         |           |           |                 |              |
| Balance at September 30, 2013                                 | 5,000 | 50 | 429,043,441 | 29,175,261 | 5,335,398 | 3,811,700 | \$ (39,115,035) | \$ (792,626) |

The Accompanying Notes are an Integral Part of These Financial Statements

## XSUNX, INC.

(A Development Stage Company)

## Statements of Cash Flows

For the Years Ended

|  | September 30,<br>2013 | September<br>30, 2012 | February 25,<br>1997 through<br>September 30,<br>2013 |
|--|-----------------------|-----------------------|---|
|  | \$                    | \$                    | \$  |
| <b>CASH FLOWS FROM OPERATING<br/>ACTIVITIES:</b>                             |                       |                       |   |
| Net loss   | (2,522,382)           | (1,555,194)           | (39,115,035)  |
| Adjustment to reconcile net loss to net<br>cash used in operating activities |                       |                       |   |
| Depreciation & amortization  | 34,937                | 41,706                | 764,469   |
| Common stock issued for services and<br>other expenses                       | 426,057               | 182,468               | 2,605,159   |
| Stock option and warrant expense   | 46,787                | 129,834               | 4,085,890   |
| Commitment fees  | 8,966                 | 85,734                | 5,780,273   |
| Asset impairment   | -                     | -                     | 7,285,120   |
| Write down of inventory asset  | -                     | -                     | 1,177,000   |
| (Gain)/loss on conversion and<br>settlement of debt                          | 1,237,183             | 441,522               | 1,211,744   |
| (Gain)/Loss on sale of asset   | (8,000)               | -                     | (24,423)  |
| Contributed capital and services   | -                     | 97,035                | 97,035  |
| Settlement of lease  | -                     | -                     | 59,784  |
| Financing costs associated with<br>issuance of convertible notes             | 321,579               | -                     | 321,579   |
| Change in derivative liability   | (746,956)             | (39,969)              | (786,925)   |
| Amortization of debt discount<br>recorded as interest expense                | 639,159               | 206,465               | 845,624   |
| Change in Assets and Liabilities:<br>(Increase)/Decrease in:                 |                       |                       |   |
| Prepaid expenses   | 70,412                | (2,130)               | 59,078  |
| Inventory held for sale  | -                     | -                     | (1,417,000)   |
| Other receivable   | -                     | -                     | -   |
| Other assets   | 3,200                 | (2,500)               | (2,500)   |
| Increase (Decrease) in:  |                       |                       |   |
| Accounts payable   | 3,414                 | 443                   | 2,373,958   |
| Accrued expenses   | 43,926                | 35,346                | 194,382   |
| <b>NET CASH USED IN<br/>OPERATING ACTIVITIES</b>                             | <b>(441,718)</b>      | <b>(379,240)</b>      | <b>(14,484,788)</b>                                   |
| <b>CASH FLOWS FROM INVESTING<br/>ACTIVITIES:</b>                             |                       |                       |   |
|  | -                     | (3,309)               | (5,909,913)   |

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|  |          |          |             |
|--|----------|----------|-------------|
| Purchase/Refund of manufacturing equipment and facilities in process |          |          |             |
| Payments on note receivable  | -        | -        | (1,500,000) |
| Proceeds from sale of assets   | 8,000    | -        | 269,100     |
| Receipts on note receivable  | -        | -        | 1,500,000   |
| Purchase of marketable prototype                                     | -        | -        | (1,780,396) |
| Purchase of fixed assets   | (32,736) | (52,124) | (630,708)   |
| NET CASH USED BY INVESTING ACTIVITIES                                | (24,736) | (3,309)  | (8,051,917) |
| CASH FLOWS FROM FINANCING ACTIVITIES:                                |          |          |             |
| Proceeds from warrant conversion                                     | -        | -        | 3,306,250   |
| Proceeds from convertible promissory notes                           | 460,500  | 310,500  | 6,621,000   |
| Proceeds for issuance of common stock, net                           | -        | 50,000   | 12,648,028  |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                            | 460,500  | 360,500  | 22,575,278  |
| NET INCREASE (DECREASE) IN CASH                                      | (5,954)  | (22,049) | 38,573      |
| CASH, BEGINNING OF PERIOD  | 44,527   | 66,576   | -           |
|  | \$       | \$       | \$          |
| CASH, END OF PERIOD  | 38,573   | 44,527   | 38,573      |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION                    |          |          |             |
|  | \$       | \$       | \$          |
| Interest paid  | 613      | 603      | 121,347     |
|  | \$       | \$       | \$          |
| Taxes paid   | -        | -        | -           |
| SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS                    |          |          |             |

During the years ended September 30, 2013 the Company exchanged a demand note in the amount of \$350,000 plus accrued interest of \$35,863 for a new promissory note for an aggregate principal amount of \$385,863. The note was partially converted in the amount of \$125,000 leaving a remaining balance of \$260,863. The remaining balance of \$260,863, plus accrued interest of \$32,633 was exchanged for a convertible promissory note in the amount of \$293,496 on September 30, 2013. Also, during the period ended September 30, 2013, the Company completed its manufacturing equipment, which was classified to research and development cost for \$367,476, and \$50,000 to R&D asset. During the year ended September 30, 2012, in exchange for the notes of \$456,920 plus accrued interest of \$98,645 that was due at September 1, 2011, the Company issued 7,000,000 restricted shares of common stock as payment for the reduction of \$205,565 of the principal balance and accrued interest under the note, and issued a new unsecured promissory exchange note in the amount of \$350,000. Also, during the year ended September 30, 2012, the Company issued 5,860,791 shares of common stock through a cashless exercise of stock purchase warrants; issued 27,500,000 shares for accounts payable in the amount of \$509,179 plus \$85,734 in commitment fees with a conversion loss of \$230,087; issued 400,000 shares of common stock for accounts payable of \$17,000 with a fair value of \$14,000 and recognized a gain of \$3,000; issued 500,000 shares of common stock for prepaid rent with a fair value of \$25,000.

The Accompanying Notes are an Integral Part of These Financial Statements

**XSUNX, INC.**

**(A Development Stage Company)**

**Notes to Financial Statements**

**September 30, 2013 and 2012**

1.

**ORGANIZATION AND LINE OF BUSINESS**

**Organization**

XsunX, Inc. ( XsunX, the Company or the issuer ) is a Colorado corporation formerly known as Sun River Mining Inc. ( Sun River ). The Company was originally incorporated in Colorado on February 25, 1997. Effective September 24, 2003, the Company completed a Plan of Reorganization and Asset Purchase Agreement (the Plan ).

**Line of Business**

In the year ended September 30, 2013, XsunX Our business development efforts for the majority of the year ended September 30, 2013, centered on the development and marketing of a licensable low cost entry point solution for the manufacture of Copper Indium Gallium Selenide (CIGS) thin film solar cells which we call CIGSolar®. During the period we completed the assembly of a thin film solar cell co-evaporation system central to the design of our CIGSolar® technology, and worked to calibrate the system, make adjustments to its new design as testing results warranted, and marketed the benefits of the technology to potential licensees which, during the period, consisted primarily of companies working to establish vertically integrated solar module manufacturing operations to service emerging demand in developing economies and regions.

In September 2013, in response to what the Company foresees as increasing demand within the commercial real-estate markets in California for the installation of solar electric PV systems, we began to prepare our operations to diversify and include services for the sale, design, and installation of solar electric PV systems as a licensed contractor in California. We plan to complete the preparation for the sale and delivery of our solar PV system design and installation services in the first quarter of fiscal 2014, and begin to market to commercial and industrial business and facility owners initially in the California market. We see this as a significant market and business development opportunity and we plan to focus a significant portion of operations on the rapid development and market acceptance for our solar electric PV systems design and installation services.

**Going Concern**

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate significant revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. The Company has obtained funds from its shareholders since its inception through the year ended September 30, 2013. Management believes the existing shareholders and the prospective new investors will provide the additional cash needed to meet the Company's obligations as they become due, and will allow the development of its business development efforts in the solar PV industry.

2.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of XsunX, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

### Development Stage Activities and Operations

The Company has been in its initial stages of formation and for the year ended September 30, 2013, had no revenues. A development stage activity is one in which all efforts are devoted substantially to establishing a new business and even if planned principal operations have commenced, revenues are insignificant.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements include the estimate of useful lives of property and equipment, the deferred tax valuation allowance, and the fair value of stock options. Actual results could differ from those estimates.

### Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash in banks and money markets with an original maturity of three months or less.



Property and Equipment

Property and equipment are stated at cost, and are depreciated using straight line over its estimated useful lives:

|                                 |                     |
|---------------------------------|---------------------|
| Leasehold improvements          | Length of the lease |
| Computer software and equipment | 3 Years             |
| Furniture & fixtures            | 5 Years             |
| Machinery & equipment           | 5 Years             |

The Company capitalizes property and equipment over \$500. Property and equipment under \$500 are expensed in the year purchased. The depreciation expense for the years ended September 30, 2013, and 2012, were \$34,937 and \$41,706, respectively.

Fair Value of Financial Instruments

Fair Value of Financial Instruments, requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of September 30, 2013, the balances reported for cash, prepaid expenses, accounts payable, accrued expenses, derivative liability, and notes payable approximate the fair value because of their short maturities.

We adopted ASC Topic 820 (originally issued as SFAS 157, Fair Value Measurements ) as of January 1, 2008 for financial instruments measured as fair value on a recurring basis. ASC Topic 820 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;



Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at September 30, 2013:

#### Fair Value of Financial Instruments

|   | Total   | (Level 1) | (Level 2) | (Level 3) |
|---|---------|-----------|-----------|-----------|
|   | \$      | \$        | \$        | \$        |
| Assets  | -       | -         | -         | -         |
|   | \$      | \$        | \$        | \$        |
| Total assets measured at fair value           | -       | -         | -         | -         |
| Liabilities                                   |         |           |           |           |
|   | \$      | \$        | \$        | \$        |
| Derivative Liability                          | 705,118 | -         | -         | 705,118   |
| Convertible Promissory Notes, net of discount | 74,964  | -         | -         | 74,964    |
|   | \$      | \$        | \$        | \$        |
| Total liabilities measured at fair value      | 780,082 | -         | -         | 780,082   |

#### Loss per Share Calculations

Loss per Share is the calculation of basic earnings per share and diluted earnings per share. Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The Company's diluted loss per

share is the same as the basic loss per share for the years ended September 30, 2013 and 2012 as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss.

|   | For the year ended<br>September 30, |                   |
|---|-------------------------------------|-------------------|
|   | 2013                                | 2012              |
| (Loss) to common shareholders (Numerator)   | \$<br>(2,522,382)                   | \$<br>(1,555,194) |
| Basic and diluted weighted average number of<br>common shares outstanding (Denominator) | 343,568,944                         | 247,855,835       |

### Revenue Recognition

The Company recognizes revenue when services are performed, and at the time of shipment of products, provided that evidence of an arrangement exists, title and risk of loss have passed to the customer, fees are fixed or determinable, and collection of the related receivable is reasonably assured. To date the Company has had minimal revenue and is still in the development stage.

### Research and Development

Research and development costs are expensed as incurred. Total research and development costs were \$425,371 and \$122,673 for the years ended September 30, 2013, and 2012, respectively.

### Stock-Based Compensation

Share-based Payment applies to transactions in which an entity exchanges its equity instruments for goods or services and also applies to liabilities an entity may incur for goods or services that are to follow a fair value of those equity instruments. We are required to follow a fair value approach using an option-pricing model, such as the Black Scholes option valuation model, at the date of a stock option grant. The deferred compensation calculated under the fair value method would then be amortized over the respective vesting period of the stock option. This has not had a material impact on our results of operations.

### Income Taxes

Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards 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 the changes in tax laws and rates of the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than fifty percent 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

### Recent Accounting Pronouncements

Management reviewed accounting pronouncements issued during the year ended September 30, 2013, and the following pronouncements were adopted during the period.

In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This ASU clarifies which instruments and transactions are subject to the offsetting disclosure requirements established by ASU 2011-11. This guidance is effective for annual and interim reporting periods beginning January 1, 2013. We do not believe the adoption of this update will have a material effect on our financial position and results of operations.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Loss, or a Tax Credit Carryforward Exists. Topic 740, Income Taxes, does not include explicit guidance on the financial statement presented of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. There is diversity in practice in the presentation of unrecognized tax benefits in those instances and the amendments in this update are intended to eliminate that diversity in practice. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Early adoption is permitted. We do not believe the adoption of this update will have a material effect on our financial position and results of operations.

The Company adopted ASC 815 "Accounting for Derivative Instruments and Hedging Activities". This pronouncement addresses the accounting for derivative instruments including certain derivative instruments embedded in other contracts, and hedging activities. Derivative instruments that meet the definition of assets and liabilities should be reported in the financial statements at fair value, and any gain or loss should be recognized in current earnings. The adoption of this pronouncement did not have a material effect on the financial statements of the Company.



3.

### CAPITAL STOCK

At September 30, 2013, the Company's authorized stock consisted of 2,000,000,000 shares of common stock, with no par value. The Company is also authorized to issue 50,000,000 shares of preferred stock with a par value of \$0.01 per share of which 10,000 shares have been designated as Series A Preferred Stock. The rights, preferences and privileges of the holders of the preferred stock are determined by the Board of Directors prior to issuance of such shares.

On June 27, 2013, the Company amended its Articles of Incorporation for the creation of its Series A Preferred Stock designating 10,000 shares of its authorized Preferred Stock as Series A Preferred Stock. The Series A Preferred Shares have a par value of \$0.01 per share. The Series A Preferred Shares do not have a dividend rate and are not redeemable. In addition, the Series A Preferred Shares rank senior to the Company's common stock. The Series A Preferred Shares have voting rights equal to that of the common stockholders and may vote on any matter that common shareholders may vote. One or more shares of Series A Preferred Stock has the voting equivalent of not less than 60% of the issued and outstanding common stock (representing a super majority voting power) of the vote required to approve any action, in which the shareholders of the Company's common stock may vote. In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the Holders of shares of Series A Preferred Stock shall be entitled to receive, immediately after any distributions to Senior Securities required by the Company's Certificate of Incorporation or any certificate of designation, and prior in preference to any distribution to Junior Securities but in parity with any distribution to Parity Securities, an amount per share equal to \$0.01 per share. Holders of shares of Series A Preferred Stock shall not be entitled to any dividends, and the Company has no redemption rights for Series A Preferred Stock issued.

On June 27, 2013, the Board of Directors of the Company authorized the issuance of 5,000 shares of Series A Preferred Stock (the Shares) to the Company's Chief Executive Officer and Director, Tom M. Djokovich. The Shares were issued in consideration for the contribution of services by Mr. Djokovich to the Company valued at fifty dollars, which the Board deemed full and fair consideration. As a result of such issuance, Mr. Djokovich has the ability to influence and determine stockholder votes.

On June 27, 2013, our Board of Directors approved an amendment to our Articles of Incorporation (the Amendment) to increase our authorized shares of Common Stock from 500,000,000 shares to 2,000,000,000 shares.

During the year ended September 30, 2013, the Company issued 99,818,103 shares of common stock upon conversion of convertible notes in the aggregate fair value of \$968,677 at prices ranging between \$0.0024 and \$0.0162; issued 3,908,171 shares of common stock for services at fair value of \$26,200; issued 500,000 shares of common stock for commitment fees at fair value of \$10,000. These shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

During the year ended September 30, 2013, in accordance with a Stipulation for Settlement of Claims, dated June 27, 2012, by and between Ironridge Global IV, Ltd ( Ironridge ) and the Company as documented in Los Angeles County Superior Court Case No. BX484549, the Company has issued a total of 43,584,017 Final Adjustment Shares of the Company's common stock, no par value ( Common Stock ) to Ironridge with a fair value of \$828,790 in settlement of the *bona fide* accounts payable of the Company, which had been purchased by Ironridge from certain creditors of the Company, in an amount equal to approximately \$494,561 in accounts payable and \$54,317 for agent and attorney fees associated with the transaction. The transaction thereby substantially reduced the Company's liabilities, including its outstanding accounts payable balance associated with the assembly of the Company's CIGSolar thermal evaporation technology.

The Stipulation provided for an adjustment in the total number of shares, which may be issuable to Ironridge based on a calculation period and formula for the transaction ( Adjustment Shares ). The calculation formula is defined as that number of consecutive trading days following the date on which the Initial Shares were issued (the Issuance Date ) required for the aggregate trading volume of the Common Stock, as reported by Bloomberg LP, to exceed \$2.5 million (the Calculation Period ). Pursuant to the Stipulation, Ironridge would retain 1,500,000 shares of the Company's Common Stock, plus that number of shares (the Final Amount ) through the end of the Calculation Period with an aggregate value equal to (a) the sum of the Accounts Payable plus 8% agent fee and reasonable attorney fees through the end of the Calculation Period, (b) divided by 80% of the following: the volume weighted average price ( VWAP ) of the Common Stock over the length of the Calculation Period, as reported by Bloomberg, not to exceed the arithmetic average of the individual daily VWAPs of any five trading days during the Calculation Period. The issuance is exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a)(10) thereof, as an issuance of securities in exchange for bona fide outstanding claims, where the terms and conditions of such issuance are approved by a court after a hearing upon the fairness of such terms and conditions.

During the year ended September 30, 2012, the Company issued 7,900,000 restricted shares of common stock as payment for the reduction of \$247,565 in accounts payable; issued 3,181,819 restricted shares of common stock under stock purchase agreements at prices ranging between \$0.015 and \$0.0165 for \$50,000 in proceeds; issued 5,860,791 restricted shares of common stock under cashless exercise of warrants; issued 3,050,078 shares of restricted common stock for services with a fair market value of \$101,500; and issued 8,741,825 shares of common stock upon conversion of convertible notes in the aggregate fair value of \$148,120 at prices ranging between \$0.0227 and \$0.015. The above shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act

Additionally, during the year ended September 30, 2012, in accordance with a Stipulation for Settlement of Claims, dated June 27, 2012, by and between Ironridge Global IV, Ltd ( Ironridge ) and the Company as documented in Los Angeles County Superior Court Case No. BX484549, the Company issued an aggregate of 27,500,000 shares of the Company's common stock, no par value per share, to Ironridge Global IV, Ltd., of which 26,000,000 shares were for settlement of accounts payable of \$549,913 with a fair value of \$780,000, and the Company recognized a loss of \$230,087. Also, 1,500,000 shares of common stock with a fair value of \$45,000 were retained by Ironridge Global IV, Ltd. The issuance is exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a)(10) thereof, as an issuance of securities in exchange for bona fide outstanding claims, where the terms and conditions of such issuance are approved by a court after a hearing upon the fairness of such terms and conditions.





4.

## STOCK OPTIONS AND WARRANTS

The Company adopted a Stock Option Plan for the purposes of granting stock options to its employees and others providing services to the Company, which reserves and sets aside for the granting of Options for Twenty Million (20,000,000) shares of Common Stock. Options granted under the Plan may be either Incentive Options or Nonqualified Options and shall be administered by the Company's Board of Directors ("Board"). Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. Notwithstanding any other provision of the Plan or of any Option agreement, each Option shall expire on the date specified in the Option agreement.

During the year ended September 30, 2013, the Company granted 1,000,000 stock options to each of the four non-affiliated members of its Board of Directors for a total of 4,000,000 options for continued services and performance to the Company. Each option vested upon issuance and provides for an exercise price of \$0.014 per share (104% of the market price on the date of grant) and expires on March 21, 2016. The Company also granted 500,000 stock options to a consultant as incentive for services and performance to the Company. Two Hundred Fifty Thousand options vested upon issuance and the balance vest sixty days thereafter. The grant provides for an exercise price of \$0.014 per share, and expires on May 13, 2015.

|                                       |                   |
|---------------------------------------|-------------------|
| Risk free interest rate               | 0.29% - 0.38%     |
| Stock volatility factor               | 138.33% - 169.56% |
| Weighted average expected option life | 2 - 3 years       |
| Expected dividend yield               | None              |

A summary of the Company's stock option activity and related information follows:

|                                  | 9/30/2013            |  | 9/30/2012            |                                    |
|----------------------------------|----------------------|--|----------------------|------------------------------------|
|                                  | Number of<br>Options | Weighted average<br>exercise price<br>\$ | Number of<br>Options | Weighted average<br>exercise price |
| Outstanding, beginning of period | 8,000,000            | 0.210                                    | 21,180,000           | 0.210                              |
| Granted                          | 4,500,000            | 0.014                                    | 1,500,000            | 0.045                              |
| Exercised                        | -                    | -  | -                    | -                                  |
| Expired                          | (3,000,000)          | 0.360                                    | (14,680,000)         | 0.014                              |
|                                  |                      | \$                                       |                      | \$                                 |
| Outstanding, end of the period   | 9,500,000            | 0.066                                    | 8,000,000            | 0.210                              |

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|  |           |       |           |       |
|--|-----------|-------|-----------|-------|
|  | \$        |       | \$        |       |
| Exercisable at the end of the period                             | 8,500,000 | 0.043 | 6,500,000 | 0.270 |
|  | \$        |       | \$        |       |
| Weighted average fair value of options granted during the period |           | 0.014 |           | 0.045 |

The weighted average remaining contractual life of options outstanding issued under the plan as of September 30, 2013 was as follows:

| Exercisable Prices | Stock Options Outstanding | Stock Options Exercisable | Weighted Average Remaining Contractual Life (Years) |
|--------------------|---------------------------|---------------------------|---|
| \$ 0.160           | 2,500,000                 | 2,500,000                 | 0.50 years  |
| \$ 0.014           | 500,000                   | 500,000                   | 1.62 years  |
| \$ 0.100           | 1,000,000                 | -                         | 2.05 years  |
| \$ 0.014           | 4,000,000                 | 4,000,000                 | 2.47 years  |
| 0.045              | 1,500,000<br>9,500,000    | 1,500,000<br>8,500,000    | 3.28 years  |

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the financial statements of operations during the year ended September 30, 2013, included compensation expense for the stock-based payment awards granted prior to, but not yet vested, as of September 30, 2013, based on the grant date fair value estimated, and compensation expense for the stock-based payment awards granted subsequent to September 30, 2013, based on the grant date fair value estimated. We account for forfeitures as they occur. The stock-based compensation expense recognized in the statement of operations during the years ended September 30, 2013 and 2012 was \$46,787 and \$129,834, respectively.



Warrants

A summary of the Company's warrants activity and related information follows:

|   | 9/30/2013            |   | 9/30/2012            |                                    |
|---|----------------------|---|----------------------|------------------------------------|
|   | Number of<br>Options | Weighted<br>average exercise<br>price<br>\$ | Number of<br>Options | Weighted average<br>exercise price |
| Outstanding, beginning of period                                    | 3,333,332            | 0.63  | 8,583,332            | 0.32                               |
| Granted   | -                    | -   | 6,363,637            | 0.02                               |
| Exercised   | -                    | -   | (11,363,637)         | 0.02                               |
| Expired   | (3,333,332)          | 0.63  | (250,000)            | 0.20                               |
|   | \$                   |   | \$                   |                                    |
| Outstanding, end of the period                                      | -                    | -   | 3,333,332            | 0.63                               |
|   | \$                   |   | \$                   |                                    |
| Exercisable at the end of the period                                | -                    | -   | 3,333,332            | 0.63                               |
|   | \$                   |   | \$                   |                                    |
| Weighted average fair value of options<br>granted during the period |                      | -   |                      | 0.02                               |

5.

## INCOME TAXES

The Company files income tax returns in the U.S. Federal jurisdiction, and the state of California. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2010.

Included in the balance at September 30, 2013, are no tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the

disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the period ended September 30, 2013, the Company did not recognize interest and penalties.

6.

#### DEFERRED TAX BENEFIT

At September 30, 2013, the Company had net operating loss carry-forwards of approximately \$20,563,000 that may be offset against future taxable income from the year 2013 through 2030. No tax benefit has been reported in the September 30, 2013 financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rate of 40% to pretax income from continuing operations for the years ended September 30, 2013 and 2012 due to the following:

|                                  | 9/30/2013   | 9/30/2012 |
|----------------------------------|-------------|-----------|
|                                  | \$          | \$        |
| Book Income                      | (1,008,950) | (622,078) |
| Nondeductible Stock Compensation | 18,720      | 51,934    |
| Contributed capital              | -           | 38,814    |
| Nondeductible other expenses     | 262,010     | 113,505   |
| Nondeductible Penalties          | -           | 10        |
| Loss on settlement of debt       | 494,870     | 176,609   |
| Meals & Entertainment            | 230         | 231       |
| Depreciation                     | 8,550       | (2,516)   |
| Loss on disposal of assets       | -           | -         |
| Valuation Allowance              | 224,570     | 243,491   |
|                                  | \$          | \$        |
| Income Tax Expense               | -           | -         |

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards 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.



Net deferred tax assets consist of the following components as of September 30, 2013 and 2012:

|                                  | 9/30/2013    | 9/30/2012    |
|----------------------------------|--------------|--------------|
| Deferred Tax Assets:             |              |              |
|                                  | \$           | \$           |
| NOL Carryforward                 | 8,225,100    | 7,996,118    |
| Capital loss Carryforward        | 2,913,800    | 2,917,009    |
| Contribution Carryforward        | 40           | 40           |
| Section 179 Expense Carryforward | 82,700       | 73,406       |
| R&D Carryforward                 | 45,420       | 44,217       |
| Deferred Tax Liabilities:        |              |              |
| Depreciation                     | (9,250)      | (17,796)     |
| Valuation Allowance              | (11,257,810) | (11,012,994) |
|                                  | \$           | \$           |
| Net Deferred Tax Asset           | -            | -            |

7.

#### CONVERTIBLE PROMISSORY NOTES

In exchange for a 10% promissory note (the "10% Note") of \$350,000 plus accrued interest of \$35,863 that had become due at September 30, 2012, the Company issued a new unsecured convertible promissory note (the "Exchange Note") for \$385,863 in November 2012. The Holder and the Company exchanged the Note solely for (i) a 12% exchange note, (ii) and 500,000 shares of common stock. Interest on the exchange note accrued interest at the rate of 18% per annum commencing on September 30, 2012 through October 31, 2012 and thereafter at the rate of 12%. The Exchange Note was convertible into securities of the Company by the Holder at the lesser of \$0.025 or 70% of the lowest volume weighted average (VWAP) occurring during the ten consecutive trading days immediately preceding the date on which the Holder may elect to convert portions of the note. During the year ended September 30, 2013 the lender converted \$125,000 of the exchanged note, plus interest of \$9,448, leaving a remaining principal balance of \$260,863, plus accrued interest of \$32,633 for an aggregate total of \$290,863. During the year ended, the Company recognized interest expense of \$42,081 on the note, which matured on September 30, 2013.

On September 30, 2013, the Exchange Note was extended to September 30, 2014, and the conversion rate was amended to 60% of the lowest VWAP occurring during the twenty (20) consecutive trading days immediately preceding the conversion date. In accordance with ASC 470-60, "Debt - Troubled Debt Restructurings by Debtors", the Company determined that the creditor did not grant a concession, as the only modification to the debt was the decrease in the conversion price. The modification was then analyzed under ASC 470-50, "Debt - Modification and

Extinguishments . The change in fair value of the conversion feature was greater than 10% of the carrying value of the debt, and as a result, in accordance with ASC 470-50, the Company deemed the terms of the amendment to be substantially different and treated the September 30, 2012 convertible note extinguished and exchanged for a new convertible note in the amount of \$290,863, which included \$32,863 of accrued interest. The Company recorded a loss on extinguishment of debt of \$20,431. During the year ended September 30, 2013, the Company recognized interest expense of \$98 on the new Exchange Note.

On November 7, 2012, the Company issued a 10% unsecured convertible promissory note (the Promissory Note ) for the principal sum of up to \$78,000 plus accrued interest on any advanced principal funds. Under the promissory Note the lender has advanced two tranches of \$25,000 each to the Company, and may elect to pay additional consideration to the Company in such amounts and at such times as the lender may choose in its sole discretion. The Promissory Note matures one year from its issuance. The Promissory Note may be converted by the lender into shares of common stock of the Company at the lesser of \$.0125 per share at fifty percent (50%) of the lowest trade price in the twenty five (25) trading days prior to the conversion of any outstanding funded principal or accrued interest under the Promissory Note. On May 8, 2013, the lender converted \$25,000 of the convertible note, plus \$1,250 in interest leaving a remaining principal balance of \$25,000. During the year ended September 30, 2013, the Company recognized interest expense of \$2,202 for this Promissory Note.

On December 13, 2012, the Company issued a 10% unsecured convertible promissory note (the Promissory Note ) for the principal sum of up to \$250,000 and accrued interest on any advanced principal funds. The consideration is \$225,000 with an original issue discount of \$25,000. Under the Promissory Note the Lender has advanced six tranches totaling \$175,000 to the Company. The Lender may only advance additional consideration to the Company subject to consent by the Company. The Company shall be required to repay only the consideration funded by the lender, and shall not have any interest or other rights extend to any unfunded portion of the Promissory Note. The Promissory Note matures one year from its issuance or from the date any principal funds are advanced under the Promissory Note. The Promissory Note may be converted by the Lender into shares of common stock of the Company at the lesser of \$.025 per share or sixty percent (60%) of the lowest trade price in the twenty five (25) trading days prior to the conversion of any outstanding funded principal or accrued interest under the Promissory Note. During the period ended September 30, 2013, the lender converted \$75,000 of the convertible note, plus original issued discount and interest of \$16,667 leaving a remaining principal balance of \$100,000, plus original issue discount and accrued interest of \$22,222 for a total sum of \$122,222. During the year ended September 30, 2013, the Company recognized interest expense of \$19,444 for this Promissory Note.



During the year ended September 30, 2013, the Company had entered into six Securities Purchase Agreements (the "Securities Purchase Agreements") each providing for the sale by the Company of 8% unsecured Convertible Notes ( the Notes ) in the principal amounts as follows;

.

\$37,500 Securities Purchase Agreement entered into on November 8, 2012

.

\$37,500 Securities Purchase Agreement entered into on January 18, 2013

.

\$53,000 Securities Purchase Agreement entered into on February 21, 2013

.

\$37,500 Securities Purchase Agreement entered into on April 23, 2013

.

\$37,500 Securities Purchase Agreement entered into on July 17, 2013

.

\$32,500 Securities Purchase Agreement entered into on August 28, 2013

During the year ended September 30, 2013, the lender had a principal balance of \$403,000 in convertible notes, of which the lender converted \$295,500 of the notes, plus \$12,420 in accrued interest, leaving a remaining aggregate principal balance of \$107,500. Upon conversion the Company issued an aggregate of 50,869,850 shares of voting common stock to the lender. The remaining Notes mature on January 16, 2014, April 11, 2014 and May 22, 2014. The Company has the right to redeem a portion or all amounts outstanding under the any Note prior to one hundred and eighty one days from issuance of the Note under a variable redemption rate premium. After one hundred and eighty days the holder may convert into shares of common stock at a variable conversion price of 60% multiplied by the market price of the average lowest three (3) trading prices for the common stock during the ten (10) trading days prior to the conversion date.

## 8. DERIVATIVE LIABILITIES

In June 2008, the FASB issued authoritative guidance on determining whether an instrument (or embedded feature) is indexed to an entity's own stock. Under the authoritative guidance, effective January 1, 2009, instruments which did not have fixed settlement provisions were deemed to be derivative instruments. As a result, certain convertible notes

issued related to the private placement described in Notes 7 do not have fixed settlement provisions because their conversion prices may be lowered if the Company issues securities at lower prices in the future. The conversion feature has been characterized as derivative liabilities to be re-measured at the end of every reporting period with the change in value reported in the statement of operations. At September 30, 2012, the outstanding fair value of the convertible notes accounted as derivative liabilities amounted to \$150,926.

During the period ended September 30, 2013, as a result of aggregate total of convertible notes we issued that were accounted for as derivative liabilities, we determined that the fair value of the conversion feature of the convertible notes at issuance was \$893,900, based upon a Black-Sholes calculation. We recorded the full value of the derivative as a liability at issuance with an offset to valuation discount, which will be amortized over the life of the notes. As the aggregate fair value of these liabilities of \$893,900 exceeded the aggregate value of the notes, the excess of the liability over the total combined note value of \$203,490 was considered as a cost of the private placement and reported in the accompanying Statement of Operation as financing cost.

During the period ended September 30, 2013, approximately \$520,500 convertible notes were converted. As a result of the conversion of these notes, the Company recorded a gain in change in fair value of the derivative liability of \$747,093 due to the extinguishment of the corresponding derivative liability. Furthermore, during the period ended September 30, 2013, the Company recognized a loss of \$1,237,183 to account for the change in fair value of the derivative liabilities. At September 30, 2013, the fair value of the derivative liability was \$293,395.

For purpose of determining the fair market value of the derivative liability for the embedded conversion, the Company used Black Scholes option valuation model. The significant assumptions used in the Black Scholes valuation of the derivative are as follows:

|                         |                             |
|-------------------------|-----------------------------|
| Risk free interest rate | Between 0.09% and 0.018%    |
| Stock volatility factor | Between 106.82% and 157.79% |
| Months to Maturity      | 9 months to 1 year          |
| Expected dividend yield | None                        |

9.

#### COMMITMENTS AND CONTINGENCIES

At September 30, 2013 the Company leased corporate facilities located in Aliso Viejo and Irvine, CA. The lease for the Aliso Viejo location is month to month at a rate of \$200 per month. The Company s \$3,000 per month 12 month lease for its Irvine shop location expired July 30, 2013 and the Company continued to rent month to month at the rate of \$2,500 per month. In September 2013 the property owner advised the Company that they had sold the property and requested that we vacate the Irvine shop location by the end of October 2013.

10.

#### SUBSEQUENT EVENTS

Management has evaluated subsequent events as of the financial statement date according to the requirements of ASC TOPIC 855 and has reported the following:

On October 1, 2013, the Company entered into four (4) promissory notes each in the amount of \$12,000 in payment for services performed by the Board of Directors. The notes bears zero interest if paid on or before the one (1) year anniversary from the effective date. If the note is not paid on or before the one (1) year anniversary a one-time interest charge of 10% shall be applied to the principal sum. The holder has the right to convert the note at the lesser of \$0.005 or the average of the three (3) closing share prices occurring immediately preceding the applicable conversion date.

On October 15, 2013, October 23, 2013, December 18, 2013, and January 13, 2014, the Company issued 7,500,000, 7,050,267, 3,500,000, and 2,500,000 shares of common stock, respectively, upon conversion of an aggregate principal sum of \$57,400, plus accrued interest and original issue discount of \$5,556. The shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

On October 16, 2013, November 13, 2013, and January 14, 2014, the Company entered into securities purchase agreements providing for the sales of 8% convertible promissory notes in the amount of \$37,500, \$32,500 and \$32,500 respectively, which, after one hundred and eighty days, can be converted into shares of common stock at a conversion price of 60% of the average lowest five (3) trading prices for the common stock, during the ten (10) trading day period ending on the latest complete trading day prior to the conversion date. The notes mature on July 18, 2014, August 15, 2014, and October 14, 2014.

On October 17, 2013, and November 5, 2013, the Company issued 13,712,578 and 27,586,550 shares of common stock, respectively, upon conversion of an aggregate principal sum of \$90,000, plus accrued interest of \$858. The shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

On October 24, 2013, and October 28, 2013, the Company issued 8,695,652 and 5,277,778 shares of common stock, respectively, upon conversion of an aggregate principal sum of \$37,500, plus accrued interest of \$1,500. The shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

On November 1, 2013, the Company issued 14,954,990 shares of common stock upon conversion of the principal sum of \$25,000, plus accrued interest of \$1,171. The shares were issued in a transactions exempt from registration pursuant to Section 4(2) of the Securities Act.

Effective October 30, 2013, as a result of the sale of the facility by the property owner, the Company vacated the Irvine, CA shop facilities where it had been conducting assembly, testing, and marketing of its CIGSolar thin film co-evaporation technologies. The Company elected to relocate the system to a facility in La Mirada California where the system could continue to be shown to interested buyers of the system and processing technology.

After approval by the Board of Directors for the expansion of business operation the Company announced the addition of solar PV system sales, design, and installation services to its business development efforts on October 16, 2013. The Company's CEO and President, Mr. Tom Djokovich, as a licensed contractor in California since 1979 provided the Company with qualification for a California B-1 contractor's license, effective October 14, 2013, to allow the Company to promote and enter into agreements with customers interested in these new services.

On November 1, 2013 the Company and Mr. Joseph Grimes, agreed that he would no longer provide services to the Company as executive sales manager, and agreed to retain Mr. Grimes as a business development consultant, under his company, Solar Utility Networks, LLC, ( SUN ) assisting the Company in its efforts to expand services to include the sales, design, and installation of solar PV systems. The services to be provided include the development of project leads, project financial analysis, conceptual project layouts and project locations, estimates for Government-based incentives, sourcing of system components, and assistance in procuring project financing. The Company has agreed to pay a commission of up to 6% on projects we enter into sales agreements that were the result of leads developed by and introduced to us by SUN. Mr. Grimes is also a Director for the Company and Mr. Grimes has agreed to act in the best interests of the Company under the agreement to provide the Company with the benefit of customer development and introduction by Mr. Grimes for the mutual benefit of both parties.

On December 10, 2013 the holder of 10% unsecured convertible promissory note, issued by the Company on December 14, 2012, with an accrued principal, interest, and original issue discount balance of \$91,667 elected to advance \$40,000 to the Company. Any funds advanced under the note mature one year from payment to the Company and may be converted by the Lender into shares of common stock of the Company, subject to securities compliance, at the lesser of \$.025 per share or sixty percent (60%) of the lowest trade price in the twenty five (25) trading days prior to the conversion.

**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.

**Date: January 14, 2014**

**XSUNX, INC.**

By: /s/ Tom Djokovich  
Name: Tom Djokovich  
Title: CEO and Principal Accounting Officer

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 and on the dates indicated.

*/s/ Tom Djokovich* January 14, 2014  
*Tom Djokovich, Chief Executive Officer,*  
*Principal Executive Officer, Principal*  
*Financial and Accounting Officer, and Director*

*/s/ Joseph Grimes* January 14, 2014  
*Joseph Grimes, Director*

*/s/ Thomas Anderson* January 14, 2014  
*Thomas Anderson, Director*

*/s/ Oz Fundingsland* January 14, 2014  
*Oz Fundingsland, Director*

*/s/ Michael Russak* January 14, 2014  
*Michael Russak, Director*

