XSUNX INC
Form 10-K
January 07, 2019

UNITED STATES

SECURITIES EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM __________ TO __________

Commission File Number 000-29621

XSUNX, INC.

(Exact Name of Registrant as Specified in Its Charter)

Colorado	**84-1384159**
(State of Incorporation)	(I.R.S. Employer

Identification No.)

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

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.

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

(Check one):
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

As of March 31, 2018, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately $1,388,200 based on the closing price as reported on the OTC Markets.

As of January 4, 2019, there were 1,521,097,230 shares of the registrant’s company common voting stock outstanding.

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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", "might", 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."

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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 name change to XsunX, Inc.

Business Overview/Summary

XsunX specializes in the sale, design, and installation of solar photovoltaic power generation (PV), energy storage in the form of managed battery systems, and energy use management technologies to provide our clients long term savings, predictability, and control of their energy costs. Making solar and managed energy solutions a sound investment for our clients is our mission.

We service the commercial self-generation energy market in California, and to a lesser extent the residential solar PV marketplace. We provide project assessment and installation services to our customers including technology selection, system engineering, procurement, permitting, construction, grid connection, warranty service, system monitoring and maintenance. We offer a wide variety of energy production and management technologies, design our systems in-house to ensure that the performance of the systems we deliver match the financial projections, and our full-time project management and licensed assembly crews ensure a seamless process, from start to finish.

The Company operates as licensed contractor in California, and our executive management provides over 30 years of extensive experience in all aspects of construction and project assembly to ensure the accuracy and quality of systems, the continued integrity of the improved building or site, and compliance with construction codes.

We guide our performance by striving to deliver consistently on the following core objectives:

Commitment to keeping the customer's best interests at the forefront at all times; and,

Value through a focus on performance and follow through that meets or exceeds customer expectations.

Recent Developments

In the 2017 period we expanded our product group to include managed energy storage systems, and demand charge management software. We believe that the Company's development of design and installation expertise for these products and services provided us with a competitive advantage that we plan to continue to leverage for the foreseeable future.

The addition of these products was in response to rising and shifting time-of-use and demand-based charges (measured in kilowatts) by utilities. Pairing solar PV with energy storage, and energy use management can significantly boost project returns through the monitoring and comparison of utility time-of-use and demand charges to real-time facility energy needs to then deliver renewable or stored energy when it provides the greatest savings for operations. This product group focuses primarily on commercial facilities and can be installed as a stand-alone technology or paired with our commercial solar rooftop, carport, truckport, and covered storage canopy systems.

In the 2017 period we established in-house capabilities to design, directly source all the major system components, and install solar canopy systems to provide us with what we believe is an advantage over other solar contractors whom typically rely on costly third-party specialty contractors to install canopy systems for their solar projects. We believe that offering canopy design/build services to solar contractors creates an opportunity to expand sales for these services for which this group of contractor/customers were already seeking assistance with.

In the 2018 we saw our efforts to offer our solar canopy design/build capabilities to solar contractors and developers begin to gain momentum with the sale of services, scheduled to commence in the spring of 2019, to structurally update and repair forty-three existing solar canopies located on the campus of the University of California San Diego.

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Market Drivers for Solar Power

We believe that a significant demand for solar power and energy management solutions is continuing to develop in response to the following drivers:

- ***Solar and energy management technologies provide the ability to control and predict future energy costs***. Our customers invest in the ability to self-generate power and to manage the use and delivery of energy to their operations. These investments provide predictability and control of energy costs and can significantly reduce overall energy costs while insulating clients from rising retail electricity prices.

- ***Maturity and dependability of solar and energy management technologies***. The results and benefits from investments in solar power systems, facility wide energy use management technology and, the growing effectiveness of new battery chemistries have produced extensive statistical performance data. This historical performance data allows investment benefits for near and long-term future operations to be accurately estimated. This provides customers greater reliance on future results, and the confidence to make investments.

- ***Rapid capital recovery of energy management investments***. Reports provided by U.S. Energy Department continue to indicate that the installed price reductions for solar PV and energy storage systems are driving growth for installation demand. These cost reductions for the major components allow us to provide per watt pricing for solar PV and per kilowatt hour pricing for energy storage that, coupled with tax and operating benefits, can often result in capital investment recovery within 3 to 4 years.

- ***Government Incentives.*** Helping to further facilitate the market for investments into self-generated power are Federal, State, and local government tax-based investment incentives. Federal, state and local government bodies provide incentives to owners, operators, and end users of solar and energy storage systems to promote self-generation energy in the form of rebates, tax credits, and exclusion of solar energy systems from property tax assessments. These incentives help to drive customer acceptance of self-generation energy as an alternative to utility-provided power.

  The Federal government currently offers a 30% Investment Tax Credit (“ITC”) under Section 48(a) of the Internal Revenue Code for the installation of certain solar power facilities through December 31, 2019, after which it will fall to 26 percent in 2020, 22 percent in 2021 and 10 percent in 2022 for future periods.

The investment economics for purchasing a solar or energy storage system are also increased through eligibility for accelerated depreciation, also known as the modified accelerated cost recovery system, or MACRS, which allows for the depreciation of equipment according to an accelerated schedule set forth by the Internal Revenue Service. This acceleration of the investment depreciation creates a valuable tax benefit that reduces the overall cost of the solar energy system and improves the return on solar investment.

Company Operations

What We Do

XsunX specializes in the sale, design, and installation of solar photovoltaic power generation (PV), energy storage in the form of managed battery systems, and energy use management technologies to provide our clients long term savings, predictability, and control of their energy costs. Making solar and managed energy solutions a sound investment for our clients is our mission.

Our customer relationship development begins with a financial analysis providing estimated investment benefits detailing the anticipated energy savings and economic benefits over the systems life span. Through this process we tailor the technologies we select, and our system designs, to maximize the financial benefits and returns for each customer. We then focus on 100% customer satisfaction through consistently matching customer expectations with our performance, and the delivery of our systems.

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The key elements of our approach include:

- ***Lead Generation***. We market our services utilizing efforts that include internet marketing, website, search engine optimization, direct mailer campaigns to property owners, and customer referrals. Our sales development efforts work with prospective customers from initial interest through tailored proposals and, ultimately, signed contracts.

- ***Detailed Investment Analysis***. We use information related to our customer's energy usage, utility rate tariffs, system costs, current or planned operations, and tax basis to determine optimal technology and investment sizing. We combine this data and provide customers with 25-year investment projections that detail capital recovery expectations, system performance and energy savings, tax and operating benefits, and property re-sale value improvement estimates.

- ***Financing***. We have established relationships with lenders and have been approved to offer their finance options to prospective customers. Through our lender association network, we offer customers financing options that include commercial equipment loans, lease options, power purchase agreements (PPA's), PACE & HERO financing through property tax assessment, and through our lender network we offer clients the option to apply tax or local utility incentives towards system purchase buy-downs thereby reducing up front out of pocket expenditures or the amount of capital financed.

- ***Design & Engineering***. To ensure accuracy we perform our site surveys directly and do not rely on third party services. We then finalize designs that will match proposed financial results, and work with a highly skilled team of qualified engineers with extensive commercial experience to ensure compliance with all codes, and best practices for systems operation.

- ***Installation***. We make the installation process simple for our customers. Once we complete the design and engineering of an energy system, we obtain all necessary building permits. Then, acting as the general contractor and construction manager, we provide all materials and components and use qualified licensed contractors with commercial electrical and solar experience to provide on-site assembly of systems, utility interconnections, and roofing or structural work. We manage and ensure local building department approvals and arrange for interconnection to the power grid with the utility.

- ***Monitoring, Maintenance, and Service***. We provide our customers with real-time facility wide monitoring of energy generation, and facility wide energy consumption. In addition to providing clients with a better understanding of their energy usage, and the opportunity to modify their usage to realize savings, these monitoring systems allow us to confirm the continuing proper operation of installed solar energy systems. We also service what we sell and provide customers with a single source for all system maintenance or warranty coordination and service.

Customers

The majority of our revenue comes from sales to commercial customers in California.   We anticipate that through our efforts to promote the sale of our solar canopy and managed energy storage offerings our revenues for commercial sales will continue to outpace residential sales through the 2019 period.

Our commercial system sales service the needs of property owners installing solar PV systems typically larger than 20kW, and energy storage systems that start at 60 kilowatt hours of storage capacity. However, system size and installation type can vary significantly to meet the needs of the customers energy use and technology needs. The average cycle time for commercial rooftop installs range approximately 8 to 10 weeks. Installations of solar canopies such as carports, truck ports, and covered storage require as much as twelve to twenty weeks due to additional permitting requirement and reviews. We help to facilitate financing options to fit the specific needs of each customer.

Our residential sales address the needs of property owners typically installing systems smaller than 15kW. The average cycle time for residential rooftop installs is approximately 2 weeks. We help to facilitate financing options to fit the specific needs of each customer.

Sales, Marketing, and Planned Operations

We have focused our sales efforts and operations on the delivery of commercial solar power and energy management systems in the California market. We believe that our focus provides us long term benefits for brand development as a commercial specialist within a market that we believe to be in the early stages of growth and poised for a broad adoption of solar power generation.

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

For the foreseeable future we plan to continue to market and offer managed energy systems comprised of solar PV, solar canopy systems, energy storage, and energy use management technology. Pairing solar PV with energy storage and energy use management can significantly boost project returns through the monitoring and comparison of utility time-of-use and demand charges to real-time facility energy needs to then deliver renewable or stored energy when it provides the greatest savings for operations. This product group focuses primarily on commercial facilities and can be installed as a stand-alone technology or paired with our commercial solar rooftop, carport, truckport, and covered storage canopy systems.

Additionally, our efforts in the 2018 period to offer our solar canopy design/build capabilities to solar contractors and developers began to gain momentum with the sale of services, scheduled to commence in the spring of 2019, to structurally update and repair forty-three existing solar canopies located on the campus of the University of California San Diego. We intend to continue to market our canopy design/build services to solar contractors for the foreseeable future.

While residential rooftop solar will continue to offer sales growth opportunities, we believe that our focus on non-residential solar power, managed energy storage, and solar canopy systems can, in many instances, provide us with opportunities to offer customers diverse installation options, larger project sizing, greater energy savings, and the ability to differentiate XsunX from competitors.

We plan to continue to focus our marketing efforts in the 2019 period highlighting the advantages of these product groups through efforts that include web advertising, direct outside sales, targeted direct marketing, commissioned consultants, and the referral of satisfied customers.

Operations and Supply

We purchase all of our system components such as solar panels, inverters, batteries, charge controllers, energy management software, and solar module mounting hardware directly from manufacturers and supply houses. When possible, we have established direct factory purchasing relationships. We have selected these suppliers and components based on cost, reliability, availability, warranty coverage, ease of installation, application design and suitability, and technology advantages.

Additionally, to compete favorably we have established relationships with lenders through which we can introduce financing options for the systems we design and install. These financing options provide 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 system components for each project on an as-needed basis from suppliers at the then-prevailing prices pursuant to purchase orders issued. 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 results, volume, and market conditions warrant we may in the future elect to make purchase commitments to ensure sufficient supply and reduced pricing of the components that we use.

Our operations focus is to provide complete project design, management of engineering, facility preparation, installation of systems, and repair or restoration to all affected areas resulting from the installation process. To accomplish this, we use the services of licensed service professionals in each of the representative trades or specialties necessary. Additionally, we provide qualified staff to supervise project operations, inspections, and system start up and energizing. In the 2019 fiscal period we anticipate that our sales may increase, and we plan to expand our direct project management capabilities through the addition of qualified field supervisory and engineering staff.

Competition

We compete with companies that offer solar and energy saving technologies. Many of these competitors have greater resources and access to broader national markets than we do. Our primary areas of competition in the California markets we serve are on pricing, the ability to deliver designs and technology integration that match client needs and the ability to arrange financing. However, when competing for solar installation projects our experience has shown that there is no clear preferred competitor in the markets in which we compete.

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We also compete with traditional utilities who have well-established relationships with our target customers providing the ease of a status quo relationship without upfront investment costs. The advantages we offer over traditional utilities is that we offer customers the opportunity to create and to manage the use of their own electricity, minimize the traditional electrical grid dependency, and create profitable long-term investments in energy.

Intellectual Property

The following is an outline of certain patents and technologies we have developed, attempted to develop, have acquired, or licensed:

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. 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 and we have abandoned maintenance of these patents.

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”. Because of not having used this trademark during the previous fiscal years we elected to abandon any continued use of this trade mark and allowed the registration to expire in the 2017 fiscal period.

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.

Company History

XsunX 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”).

Pursuant to the Plan, the Company acquired the following three patents from Xoptix, Inc., a California corporation for Seventy Million (70,000,000) shares of common stock (post reverse split one for twenty): 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.

Pursuant to the Plan, the Company authorized the issuance of 110,530,000 (post reverse split) common shares. Prior to the Plan, the Company had no tangible assets and insignificant liabilities. Subsequent to the Plan, the Company completed its name change from Sun River Mining, Inc. to XsunX, Inc. The transaction was completed on September 30, 2003.

Government Contracts

There are no government contracts as of the fiscal year ended September 30, 2018.

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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 engineering and design firms of systems related to equipment operations, and occupancy fire and safety construction standards to deal with compliance of safety standards. We do not anticipate that these costs will have a material effect on the Company's operations or competitive position as these requirements apply to our competition as well, and the cost of such compliance is typically incorporated into projects costs. The Company is unable to assess or predict at this time what effect additional regulations or legislation could have on its activities.

The solar systems we sell require interconnection permission from the applicable local primary electric utility prior to operation. In almost all cases, interconnection permissions are issued on the basis of a standard process that has been pre-approved by the public utility commission or other regulatory body with jurisdiction over utility net metering procedures. As such, no additional regulatory approvals are required once interconnection permission is given.

Our operations are subject to federal, state and local laws, including regulations governing the occupational health and safety of our employees and wage regulations.

Employees and Consultants

As of the fiscal year ended September 30, 2018, we had three full-time employees including Mr. Tom Djokovich who is President and CEO. While we do add to, and reduce, the size of our workforce based on current project needs this represents one full-time employee change to the same period ended 2017. To compensate our need for additional staff the Company also relies on qualified consultants and licensed professionals to perform specific functions that otherwise would require an employee. As we expand our business developments efforts, we may 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.

Seasonality

Our operations have, in the past, experienced some seasonality for commercial sales with increased demand early and later in in each year. We believe that this trend may be related to late year project sales stemming from client interest in accessing same year tax benefits for solar investments, and early year sales related to fiscal budgeting for energy projects to be installed.

Available Information

Our website address is www.xsunx.com. Information contained on our website is not incorporated by reference into this 10-K. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, referred to herein as the SEC. Our SEC filings, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act are available to the public free of charge over the Internet at our website or at the SEC's web site at http://www.sec.gov. Our SEC filings will be available on our website as soon as reasonably practicable after we have electronically filed or furnished them to the SEC. You may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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.

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

We are in the early stages of executing our plans to grow our business through the sale, design, installation, and servicing of commercial solar power systems and, to date, have not generated 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, 2018 and 2017 was $(3,969,406) and $(498,663), respectively. Net cash used for operations was $(123,966) and $(44,844) for the years ended September 30, 2018 and 2017, respectively. At September 30, 2018, we had a working capital deficit of $(4,472,681). We had an accumulated deficit at September 30, 2018 and 2017 of $(47,096,505) and $(43,127,099), respectively.

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 the sales for our products will achieve market acceptance and whether we obtain additional financing to expand marketing efforts. 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 the energy systems we sell. 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 and services. 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 for the sale and delivery of the systems we sell, 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 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 may require additional financing to fund future operations, including expansion in current 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 during the year ended September 30, 2018, 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.

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As we continue to expand our business development efforts within the solar PV and energy use management market existing electric utility industry regulations, and changes to regulations, may present technical, regulatory and economic barriers to the purchase and use of our systems that may significantly reduce demand for the energy technologies 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. Future changes to any of 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 energy systems. For example, in the 2016 year the Public Utility Commission in California approved changes to future Net Energy Metering (NEM) remuneration pricing policies for publicly regulated utilities. These changes have reduced the economic benefits derived by our target customers and could make investments in solar power generation less desirable, thereby harming our future business, prospects, financial condition and results of operations.

In addition, any other 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.

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 the customers solar energy system that is in excess of actual facility electric load and that is exported to the grid. At the end of the billing period, the customer simply pays for the net energy used in excess of exported solar power or receives a credit for future use at the retail rate if more energy is produced than consumed.

In 2016 the California Public Utilities Commission adopted new policies known as NEM 2.0 as a successor net energy feed in regulation which became generally effective in the first quarter of 2017 throughout the state. A benefit to NEM 2.0 eliminates caps on solar installations within utility territories through 2019. However, customers applying for NEM interconnection with utilities will now be required to pay one-time interconnection fees between $75 to $150 dollars, and pay an average of 2-3¢/kWh "non-bypassable charge" thereby effectively reducing the ability for daytime retail rate credits to offset 100% of costs incurred when purchasing power from the utility in the evenings, and NEM customers will be required to move to Time Of Use (TOU) rate plans.

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.

We anticipate that we will continue to substantially rely on net metering to establish competitive pricing for our solar PV system sales with our prospective customers. The future absence of net metering for customer acquisition, without other product pricing reductions, could greatly limit demand and our ability to effectively market our solar energy system benefits.

Changes in trade policy by the U.S. government imposing trade restrictions or tariffs could adversely impact our ability to provision the products that comprise the solar PV, solar canopy, and energy management systems that we offer, and could impede our ability to offer competitive solar PV and energy management system products and have a material adverse effect on our business.

As we continue to expand our business development efforts within the solar PV and energy management market these business operations may depend on the availability of products from offshore manufacturers providing access to low cost materials such as solar modules, batteries, inverters, steel, and wire. In the 2018 calendar year tariffs of 25% were imposed in January on imported solar modules, and in February on imported steel.

In January 2018 the President impose safeguard tariffs on imported solar module and cell manufacturers for the next five years, starting at 30% in year 1, lowering to 25% in year 2, 20% in year 3, and ending at 15% in year 4. The president excluded up to 2.5 gigawatts of solar cell imports over the same period which may lead to the increase of domestic solar module assembly utilizing the imported solar cells.

In February 2018 the President imposed a 25% tariff on imported steel. XsunX utilizes steel in the fabrication of its solar canopy systems, and while we source our materials through domestic providers the imposition of this tariff caused prices for the materials we use to increase. We will continue to be dependent on the use of steel for the construction of solar canopies, and any future domestic steel price increases, or future tariff adjustments, will have a direct influence on the affordability of the systems we market and sell.

Any future determination that creates or adds import barriers or imposes new imports tariffs on products we routinely depend on for our systems may limit the timely availability of solar modules, increase costs thereby reducing economic benefits for solar power generation, and make marketing efforts to attract customers costlier and more difficult thereby limiting our growth.

As we continue to expand our business development efforts within the solar PV and energy management market these business operations will depend on the availability of tax credits and other financial incentives to attract customers. The expiration, elimination or reduction of credits and incentives would adversely impact our planned business expansion.

U.S. federal, state and local government bodies provide incentives to end users and operators of solar and energy storage systems 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 rely on these governmental rebates, tax credits and other financial incentives to market the low-cost operating and investment benefits of solar PV and energy storage 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 (“ITC”) under Section 48(a) of the Internal Revenue Code, or the ITC, for the installation of solar power and energy storage coupled with solar power. By statute, this tax credit is available through 2019, after which it will fall to 26 percent in 2020, 22 percent in 2021, and 10 percent in 2022 and future years.

A material drop in the retail price of utility-generated electricity or electricity from other sources would harm our business development efforts for the sale of solar PV and energy management systems 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 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 our products as a competitive alternative and could harm our business. The price of electricity from utilities, while historically proven to be unlikely, 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 and energy storage systems 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.

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

We anticipate that commercial customers will continue to comprise a sizable portion of our business, and the commercial market for energy is particularly sensitive to price changes. Typically, commercial customers pay less for certain aspects of delivered energy from utilities than residential customers. Any future decline in the retail rate of energy or shifts in the timing of peak rate charges for commercial entities could have a significant impact on our ability to attract commercial customers. We may be unable to offer solar or energy storage 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 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, or tightening credit requirements, may negatively impact our ability to provide financing sources on favorable terms to facilitate our customers' purchase of our solar PV and energy storage systems.

As we continue to expand our business development efforts within the solar PV and energy management system market we will continue to 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 service, and we will be responsible for customer installations. For our commercial solar PV system projects, we are the general contractor and construction manager, and we will typically rely on licensed subcontractors representing specialty trades such as electrical, concrete, grading, 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. In addition, any shortages that may occur of skilled subcontractor labor for our projects could significantly delay a project or otherwise increase our costs. Because our profit on an 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, our system installations are 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 PV and energy storage 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 continue to expand our business development efforts within the solar PV and energy management system installation market future problems with product quality or performance may cause us to incur warranty expenses and may damage our market reputation and cause our financial results to decline.

Customers in our target market of California who purchase solar energy systems are covered by a warranty of up to 10 years in duration for material defects and workmanship. In addition, we provide a pass-through warranty of the major components such as module mounting, inverter, and solar panel manufacturers to our customers, which generally range from 10 to 25 years. We may also make extended warranties available at an additional cost to customers.

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As we continue to expand our business development efforts within the solar PV and energy storage system installation market, we may be required to make assumptions and apply judgments regarding many factors, including our anticipated rate of warranty claims, and the durability, performance and reliability of the components employed in the assembly of energy systems. The Company has a limited history of project installations and assesses potential warranty costs, and other allowances, based on our experience in servicing warranty claims as they may arise in the future.

If products and technologies that we market, or products based on technologies we assemble, 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 we market that comprise the solar PV and energy storage systems we offer will gain or maintain market acceptance, or our limited research and development efforts will be successful. Further, the areas in which we have developed product groups 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 which could have an adverse effect on our business.

There can be no assurance that products we market, or products based on technologies that we may develop, 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 our products and services 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 we offer, or the technologies of others that we market 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 continued efforts to offer design, engineering, and installation services for solar electric PV and energy management systems which could have an adverse effect on our business.

The market for sales and installation of solar electric PV and energy storage 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 comparable 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 cause products and services 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 sell or install solar products. In addition, we expect additional potential competitors to enter the markets for solar and energy storage products and installation services in the future. Some of these competitors are large companies 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.

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The loss of strategic relationships used in provisioning the products that comprise the solar PV and energy management systems that we offer could impede our ability to offer competitive solar PV and energy storage 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, components, and labor services necessary for the assembly of solar PV and energy management systems. 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 the market.

We may not be successful in protecting any intellectual property and proprietary rights that we may develop 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 trade secrets, and trade dress. 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. Our success depends in part on our ability to create and maintain intellectual property to differentiate our services. There can be no assurance that we will be able to seek or obtain patents for our products or services in the U.S.

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 technologies we have worked to 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 or capabilities developed by us.

We are not currently a party to any litigation with respect to any patent 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.

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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 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.

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 assess 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.

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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 OTC. The OTC 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 OTC 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 OTC may be difficult to obtain.

The quotation of our common stock on the OTC 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 affect 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.

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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

As of September 30, 2018, the Company leases corporate facilities located in Aliso Viejo, CA. The lease for the Aliso Viejo location is month to month at a rate of $200 per month.

The Company owns no real property.

Item 3. Legal Proceedings

In the 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.

Item 4. Mining and Safety Disclosures

Not applicable

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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 Market 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:

Year Ended September 30, 2018	**High**	**Low**	**Close**
First Quarter ended December 31, 2017	0.0010	0.0004	0.0006
Second Quarter ended March 31, 2018	0.0050	0.0006	0.0010
Third Quarter ended June 30, 2018	0.0024	0.0001	0.0019
Fourth Quarter ended September 30, 2018	0.0019	0.0009	0.0011
Year Ended September 30, 2017			
First Quarter ended December 31, 2016	0.0014	0.0008	0.0010
Second Quarter ended March 31, 2017	0.0090	0.0010	0.0012
Third Quarter ended June 30, 2017	0.0019	0.0008	0.0010
Fourth Quarter ended September 30, 2017	0.0013	0.0006	0.0008

The market price for our common stock, like that of other service 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, 2018, there were approximately 302 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, 2018, there were 1,468,106,819 shares of common stock outstanding on record with the Company's stock transfer agent, Island Stock Transfer. On September 30, 2018 the last reported sales price of our common stock on the OTC Market was approximately $0.0011 per share.

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.

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Stock Option Plan

On May 20, 2014, the Company adopted the 2014 XSUNX, Inc. Stock Option and Award Plan (the "Plan") to enable the Company to obtain and retain the services of the types of Employees, Consultants and Directors who will 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 50,000,000 shares of common stock are authorized under the Plan, of which no options were issued and outstanding under the Plan at September 30, 2018.

Stock Compensation, Issuance of Stock Purchase Options

During the year ended September 30, 2018 the Company did not grant or issue any stock purchase options.

Recent Sales of Securities (Registered and Unregistered)

During the year ended September 30, 2018, the Company made the following unregistered issuances at fair value in the aggregate amount of 427,960,271 shares of common stock upon the conversion by the holders of convertible notes as follows:

The Company issued 427,960,271 shares of common stock at prices ranging from $0.00055 to $0.0001 upon conversion of the aggregate amount of $126,920 dollars of principal and accrued interest of $14,577 to holders of 10% convertible notes.

Unless noted otherwise, all the above issuances by the Company of its unregistered securities were made by the Company in reliance upon Section 4(a)(2) of the Securities Act of 1933, as amended (the "1933 Act").

Use of Proceeds from the Sale of Securities

The proceeds from the above sales of securities were used primarily to fund efforts by the Company to develop business operations for the sale of commercial solar power and energy storage systems, and in the day-to-day operations of the Company and to pay the accrued liabilities associated with these operations.

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.

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Business Overview

XsunX specializes in the sale, design, and installation of solar photovoltaic power generation (PV), energy storage in the form of managed battery systems, and energy use management technologies to provide our clients long term savings, predictability, and control of their energy costs. Making solar and managed energy solutions a sound investment for our clients is our mission.

We service the commercial self-generation energy market in California, and to a lesser extent the residential solar PV marketplace. We provide project assessment and installation services to our customers including technology selection, system engineering, procurement, permitting, construction, grid connection, warranty service, system monitoring and maintenance. We offer a wide variety of energy production and management technologies, design our systems in-house to ensure that the performance of the systems we deliver match the financial projections, and our full-time project management and licensed assembly crews ensure a seamless process, from start to finish.

The Company operates as licensed contractor in California, and our executive management provides over 30 years of extensive experience in all aspects of construction and project assembly to ensure the accuracy and quality of systems, the continued integrity of the improved building or site, and compliance with all construction codes.

We guide our performance by striving to deliver consistently on the following core objectives:

Commitment to keeping the customer’s best interests at the forefront at all times; and,

Value through a focus on performance and follow through that meets or exceeds customer expectations.

Plan of Operations

For the fiscal year ending September 30, 2019, the Company has developed a plan of operations focused on the sale, design, and installation of solar power, solar canopies, and energy management systems as a licensed contractor in California.

Our Plan of Operations requires approximately $66,000 to support sales and marketing efforts, $369,000 for general and administrative activities to support operations, and $116,000 to support project bid and field management costs. These costs are attributable to the marketing, sales, planning, and supervision costs associated with solar power system installations. However, the cash flow requirements associated with these efforts may continue to exceed cash generated from operations in the current and future periods. If we are unable to develop sufficient solar power system installation sales or profitability through solar power system sales 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 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 limited historical data with the sale of solar PV and energy storage 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.

Results of Operations for the Fiscal Year Ended September 30, 2018 Compared to Fiscal Year Ended September 30, 2017.

*Revenue and Cost of Sale*s:

The Company generated revenues of $665,017 and $1,172,972 in the fiscal years ended September 30, 2018, and 2017. The decrease of $507,955, during the fiscal period ended September 30, 2018 was primarily due to late year commercial projects for which the start date was re-scheduled to spring 2019 for one, and delays in completing financing and permitting processes in the 2018 fiscal period for another. The costs of goods sold in the fiscal years ended September 30, 2018 and 2017 were $438,693 and $791,413, respectively. The Company to date has had minimal revenue and cost of sales. Management expects to continue to generate revenues and is working to increase sales as it matures the scope of the Company’s capabilities and brand awareness.

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We believe that the development of our solar canopy PV systems in prior periods continues to provide us with the greatest opportunity for sales growth, and revenue generation in future periods. However, the sale and delivery of our canopy systems can experience extended sales cycles attributable to delays in customer project financing that can delay our ability to close sales timely, or to recognize revenues through extended planning or permitting processes for the canopy structures that may span reporting periods. We anticipate that through our marketing efforts purchase interest, and sales, in this product group will continue to improve and provide us with increased project flow that may result in more consistent period to period revenue growth results.

Selling, General and Administrative Expenses:

Selling, General and Administrative (SG&A) expenses decreased by $24,897 during the fiscal year ended September 30, 2018 to $428,338 as compared to $453,235 for the prior fiscal year ended September 30, 2017. The decrease in SG&A expenses was related primarily due to the Company experiencing a reduction to the administrative costs associated with the delivery of sold projects as the Company improved its project delivery capabilities. Management expects SG&A expenses to increase in future periods as the Company continues to expand its marketing, sales, and service efforts.

Other Income/(Expenses):

Other income/(expenses) increased by $3,340,289 to $(3,767,112) for the fiscal year ended September 30, 2018, compared to $(426,823) for the prior fiscal year ended September 30, 2017. The increase was the result of an increase in net increase in loss on net change of fair market value of the derivative instruments of $3,227,624, increase in loss on conversion of debt of $39,797, increase in interest expense in the amount of $72,966, which includes amortization of debt discount of $60,518, with a decrease in penalties of $98. The increase in other income/(expenses) was due to financing through the issuance of convertible promissory notes.

Net Loss:

For the fiscal year ended September 30, 2018, our net loss was $(3,969,406) as compared to a net loss of $(498,663) for the fiscal year ended September 30, 2017. The majority of the increase in net loss of ($3,470,743) was due primarily to a decrease in other (expenses) associated with the net change in derivative instruments estimated each period. These estimates are based on multiple inputs, including the market price of our stock, interest rates, our stock price, volatility, variable conversion prices based on market prices defined in the respective agreements and probabilities of certain outcomes based on managements' estimates. These inputs are subject to significant changes from period to period, therefore, the estimated fair value of the derivative liabilities will fluctuate from period to period, and the fluctuation may be material.

Liquidity and Capital Resources

We had a working capital deficit at September 30, 2018 of $(4,472,681), as compared to a working capital deficit of $(919,717) as of September 30, 2017. The increase of $3,552,964 in working capital deficit was the result of an increase in cash, contract receivables, contract asset, accounts payable, accrued expenses, contract liabilities, and convertible notes, derivative liability, with a decrease in prepaid expenses. The Company had revenue during the current period, and a reduction in debt financing.

For the fiscal year ended September 30, 2018, our cash flow used by operating activities was $123,966, as compared to cash flow used by operating activities of $44,844 for the prior fiscal year ended September 30, 2017. The increase in cash flow used of $79,122 by operating activities was primarily due to a net change in net loss associated with the overall decrease in selling, general and administrative expenses resulting from a change in selling efforts to more efficient web-based programs and improving project delivery capabilities.

Cash flow used in investing activities was $0, compared to cash flow used by investing activities of $772 for the fiscal year ended September 30, 2018 and 2017. The decrease of $772 in investing activities was primarily due to fixed assets purchased in the prior fiscal year.

Cash flow provided by financing activities was $142,000 for the fiscal year ended September 30, 2018, as compared to cash provided by financing activities of $46,500 during the fiscal year ended September 30, 2017. The increase in cash flow provided by financing activities was the result of an increase in the Company's reliance on cash provided through equity financing. Our capital needs have primarily been met from the revenue and proceeds of private placements, and the sale of convertible notes. There is no assurance that our revenue will exceed our operating cost.

For the fiscal year ending September 30, 2018, the Company has developed a plan of operations focused on the sale, design, and installation of solar power, energy storage, and solar canopy systems as a licensed contractor in California.

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PLAN OF OPERATION AND FINANCING NEEDS

Our Plan of Operations, based upon the aforementioned activities, requires approximately $66,000 to support sales and marketing efforts, $369,000 for general and administrative activities to support operations, and $116,000 to support project bid and field management costs. These costs are attributable to the marketing, sales, planning, and supervision with costs associated with solar power system installations. However, the cash flow requirements associated with these efforts may continue to exceed cash generated from operations in the current and future periods. If we are unable to develop sufficient solar power system installation sales or profitability through solar power system sales 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

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to impairment of property, equipment, intangible assets, deferred tax assets and fair value computation using the Black Scholes option pricing model. We base our estimates on historical experience and on various other assumptions, such as the trading value of our common stock and estimated future undiscounted cash flows, that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the items-described herein, are reasonable.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our products will be quoted for sale in United States dollars. 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

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

As of September 30, 2018, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Principal Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Principal Accounting Officer concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in our periodic reports is recorded, processed, summarized and reported, within the time periods specified for each report and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Managements Report of Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a - 15(f). Our internal control system was designed to provide reasonable assurance to our management and the Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2018. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control - Integrated Framework - Guidance for Smaller Public Companies (the COSO criteria). Based on our assessment we believe that, as of September 30, 2018, our internal control over financial reporting is effective based on those criteria.

Changes in Internal Control Over Financial Reporting

There was no change to our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is 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

Between November 9 and 27, 2018 the Company issued 52,990,411 shares of common upon conversion of $25,000 of principal and $1,250 in accrued interest by the holder of a 10% convertible Note that was originally issued on May 7, 2018. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act since, among other things, the transactions did not involve a public offering.

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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, 2018:

Name	Age	Position Held	Tenure
Tom Djokovich	61	CEO, President, Director, Secretary, and acting Principal Accounting Officer	CEO and Director since October 2003, Secretary & PAO since September 2009, President since January 2013
Thomas Anderson	53	Director	Since August 2001
Oz Fundingsland	75	Director	Since November 2007
Michael Russak	71	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 10 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.

Biographical Information

Mr. Tom Djokovich, age 61, 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 Internet based business-to-business ordering system for the construction industry.

Independent Directors

Mr. Thomas Anderson, age 53, 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.

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Mr. Oz Fundingsland as Director, age 75, became a director of the Company in November 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 71, 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. Dr. Michael A. Russak brings decades of business management, finance, and corporate governance experience to XsunX. His professional and business experience includes his tenure as Executive Vice President of Business Development with Intevac, Inc. in Santa Clara, CA. 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, 2018, the Company's board was comprised of four directors, three 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 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.

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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, 2018, all filing requirements applicable to its officers, directors, and greater than ten-percent beneficial owners were complied with.

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 in the developing stages of executing a business plan focused on the sale, design, installation, and servicing of commercial solar power, energy storage, and solar canopy systems 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. 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 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 and our president (collectively, our "named executive officers") for the fiscal years ended September 30, 2018, and 2017 respectively.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Contributed Services ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)	Total
Tom Djokovich, CEO(1)	2018	169,000	0	0	0	0	16,132	183,747
	2017	169,000	0	0	0	0	14,747	183,747

(1) In addition to Mr. Djokovich's salary compensation the Company provided Mr. Djokovich with co-payments totaling $16,132 and 14,747 for health insurance premiums as part of the Company's health insurance program in the fiscal periods ended 2018, and 2017 respectively.

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

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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, 2018, and 2017 respectively.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Tom Djokovich, CEO	2018	0	0	0
	2017	0	0	0

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, 2018

Name	OPTION AWARDS					STOCK AWARDS			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Unearned	Equity Incentive Plan Awards: Number of	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of	Market Value of Shares or	Equity Incentive Plan Awards: Number of	Equity Incentive Plan Awards: Market or

	Exercisable	Options (#) Unexercisable	Securities Underlying Unexercisable Unearned Options (#)			Stock That Have Not Vested (#)	Units of Stock that Have Not Vested ($)	Unearned Shares, Units or Other Rights That Have Not Vested (#)	Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#)
Tom Djokovich, CEO	-	-	-	-	-	-	-	-	-

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, a Director, and the qualifying person for the Company's California State contractor's license. 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 2018 fiscal period was $169,000 in collected wages. Mr. Djokovich was also provided with approximately $16,132 in co-payments 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.

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, 2018, Directors did not receive compensation for their services as Directors. 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 Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
Tom Djokovich	$ 0	0	0	0	$ 0
Thomas Anderson	$ 0	0	0	0	$ 0
Oz Fundingsland	$ 0	0	0	0	$ 0
Dr. Michael Russak	$ 0	0	0	0	$ 0

Compensation Committee Interlocks and Insider Participation

For the fiscal year ended September 30, 2018, as applicable, new or existing employment agreements were reviewed and deliberated by the four members of the Company's Board of Directors.

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

The following table sets forth, as of January 4, 2019, 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.

Shareholders/Beneficial Owners	**Number of Common Shares**	**Number of Series A Preferred Shares**	**Ownership Percentage(1)**	
Tom Djokovich (1) (2) (3) President & Director	13,000,000	5,000	60.85	%
Thomas Anderson Director	4,433,333	0	< 1	%
Oz Fundingsland Director	2,666,667	0	< 1	%
Mike Russak Director	2,933,333	0	< 1	%
All Officers & Directors as a Group (4 individuals)	23,033,333	0	61.51	%

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

(1) Applicable percentage ownership is based on 1,521,097,230 shares of common stock issued and outstanding as of January 4, 2019. 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 4, 2019 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 13,000,000 shares owned by the Mr. Djokovich at January 4, 2019. 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 4, 2019, Mr. Djokovich held 13,000,000 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 925,658,338 shares of common stock or approximately 60.85% 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, and Dr. Michael Russak.

The following directors are not independent: Tom Djokovich.

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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 Convertible Promissory Notes

On October 1, 2013, the Company issued unsecured Convertible Promissory Notes (the "Promissory Notes") in the amount of $12,000 each to Board members Tom Anderson, Dr. Michael Russak, and Oz Fundingsland (the "Holders") in exchange for their retention as directors during the fiscal year ending September 30, 2014. The Promissory Notes can be converted into shares of common stock by the Holder for $0.0045 per share. The Promissory Notes matured on October 1, 2014 and bear zero (0%) percent interest during the first 12 months from the date of issuance. If the Promissory Note is not paid in full by the Company, or through conversion by the Holder, on or before the first anniversary, a one-time interest charge of 10% shall be applied to any remaining principal sum. So long as any shares issuable under a conversion are subject to transfer and sale restrictions imposed pursuant to SEC Rule 144 of the Rules promulgated under the Securities Act of 1933, the Company shall, upon written request by Holder, file Form S-8, if applicable, with the U.S. Securities and Exchange commission to register the issued shares. Dr. Russak and Mr. Fundingsland had converted their Note and received collectively 6,000,000 shares of common stock in the 2014 fiscal period. Mr. Anderson has not converted his Note as of the date of this report.

Item 14. Principal Accounting Fees and Services

2018

For the fiscal year ended September 30, 2018, Liggett & Webb P.A. billed $37,700 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 31, 2017, March 31, 2018, June 30, 2018 and for audit fees related to the Company’s annual report on Form 10-K.

2017

For the fiscal year ended September 30, 2017, Liggett & Webb P.A. billed $37,700 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 31, 2016, March 31, 2017, June 30, 2017 and for audit fees related to the Company’s annual report on Form 10-K.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

Exhibits:

Exhibit	Description
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	2014 XSUNX, Inc. Stock Option and Award Plan, dated May 20, 2014.(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 Third Extension Agreement to 12% Note used in connection with the exchange and 18 month extension to a promissory note that had become due September 30, 2015. (7)
10.6	Form of Convertible 10% Promissory Note issued on November 20, 2014, used in connection with the sale of a convertible promissory note in an amount up to $400,000. (8)
10.7	Form of Addendum extending the maturity date to April 13, 2018 for a Convertible 10% Promissory Note issued on November 20, 2014, used in connection with the sale of a convertible promissory note in an amount up to $400,000. (9)
10.8	Form of Convertible Promissory Notes issued to four members of the Board of Directors dated October 1, 2013. (10)
10.9	Form of 10% Promissory Note issued on August 5, 2014, used in connection with establishing access to interim financing requirements for solar system installations. (11)
10.10	Form of Convertible 10% Promissory Note issued on May 12, 2017, used in connection with the sale of a convertible promissory note in an amount up to $150,000. (12)
10.11	Form of Addendum extending the maturity date to May 12, 2022 for a Convertible 10% Promissory Note issued on May 12, 2017, used in connection with the sale of a convertible promissory note in an amount up to $150,000. (16)
10.12	Form of Convertible 10% Promissory Note issued on January 11, 2018, used in connection with the sale of a convertible promissory note in the amount of $52,000. (13)
10.13	Form of Convertible 10% Promissory Note issued on May 8, 2018, used in connection with the sale of a convertible promissory note in the amount of $25,000. (14)
10.14	Form of Convertible 10% Promissory Note issued on August 6, 2018, used in connection with the sale of a convertible promissory note in the amount of $30,000. (15)
31.1	Sarbanes-Oxley Certification (16)
32.1	Sarbanes-Oxley Section 906 Certification (16)
101.INS	XBRL Instance Document (16)
101.SCH	XBRL Taxonomy Extension Schema Document (16)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (16)
101.DEF	XBRL Taxonomy Extension Label Linkbase Document (16)
101.LAB	XBRL Taxonomy Extension Presentation Linkbase Document (16)

101.PRE XBRL Taxonomy Extension Definition Linkbase Document (16)

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(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) 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 May 21, 2014.
(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 January 8, 2016.
(8) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated November 26, 2014.
(9) Incorporated by reference to exhibits included with the Company's Report on Form 10-K filed with the Securities and Exchange Commission dated December 14, 2016.
(10) 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.
(11) Incorporated by reference to exhibits included with the Company's Report on Form 10-Q filed with the Securities and Exchange Commission dated August 18, 2014.
(12) Incorporated by reference to exhibits included with the Company's Report on Form 10-Q filed with the Securities and Exchange Commission dated May 15, 2017.
(13) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated January 18, 2018.
(14) Incorporated by reference to exhibits included with the Company's Report on Form 8-K filed with the Securities and Exchange Commission dated May 14, 2018.
(15) Incorporated by reference to exhibits included with the Company's Report on Form 10-Q filed with the Securities and Exchange Commission dated August 14, 2018.
(16) Provided Herewith

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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 4, 2019 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 *Tom Djokovich, Chief Executive Officer,* *Principal Executive Officer, Principal* *Financial and Accounting Officer, and Director*	January 4, 2019
/s/ Thomas Anderson *Thomas Anderson, Director*	January 4, 2019
Oz Fundingsland *Oz Fundingsland, Director*	January 4, 2019
/s/ Michael Russak *Michael Russak, Director*	January 4, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

XsunX, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of XsunX, Inc. (the "Company") as of September 30, 2018 and 2017, the related statements of operations, shareholders' deficit, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Company's Ability to Continue as a Going Concern

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 doesn't generate significant revenues, has a history of losses and has negative cash flows from operations. This raises substantial doubt about the Company's 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.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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 in accordance with the standards of the PCAOB.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Liggett & Webb, P.A.

We have served as the Company’s auditor since 2016.

New York, NY

January 4, 2019

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XSUNX, INC.

Balance Sheets

	September 30, 2018	**September 30, 2017**
ASSETS		
CURRENT ASSETS		
Cash	$41,090	$23,056
Contract receivables	99,907	17,125
Prepaid expenses	5,399	6,967
Contract asset	6,919	-
Total Current Assets	153,315	47,148
PROPERTY & EQUIPMENT		
Office & miscellaneous equipment	29,842	29,842
Machinery & equipment	1,398	1,398
	31,240	31,240
Less accumulated depreciation	(30,374)	(30,094)
Net Property & Equipment	866	1,146
TOTAL ASSETS	$154,181	$48,294
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$134,398	$83,870
Credit card payable	64,577	67,521
Accrued expenses and interest on notes payable	55,764	39,206
Contract liabilities	141,688	14,955
Derivative liability	4,154,333	625,645
Promissory note, related party	31,500	31,500
Convertible promissory note, related party	12,000	12,000
Convertible promissory notes, current portion net of debt discount of $36,297 and $865, respectively	31,736	92,168
Total Current Liabilities	4,625,996	966,865
LONG TERM LIABILITIES		
Convertible promissory notes, net of debt discount of $12 and $147, respectively	165,868	125,653

Total Long Term Liabilities	165,868	125,653
TOTAL LIABILITIES	4,791,864	1,092,518
SHAREHOLDERS' DEFICIT		
Preferred stock 50,000,000 shares authorized, shares issued and outstanding designated as follows:		
Preferred Stock Series A, $0.01 par value, 10,000 authorized 5,000 and 5,000 shares issued and outstanding, respectively	50	50
Common stock, no par value; 2,000,000,000 authorized common shares 1,468,106,819 and 1,040,146,548 shares issued and outstanding, respectively	33,311,674	32,935,727
Additional paid in capital	5,335,398	5,335,398
Paid in capital, common stock warrants	3,811,700	3,811,700
Accumulated deficit	(47,096,505)	(43,127,099)
TOTAL SHAREHOLDERS' DEFICIT	(4,637,683)	(1,044,224)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$154,181	$48,294

The accompanying notes are an integral part of these financial statements

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XSUNX, INC.

Statements of Operations

For the Years Ended September 30, 2018 and 2017

	Years Ended September 30, 2018	September 30, 2017
SALES	$665,017	$1,172,972
COST OF GOODS SOLD	438,693	791,413
GROSS PROFIT	226,324	381,559
OPERATING EXPENSES		
Selling, general and administrative expenses		